Joint Legislative Fiscal Study Committee
on K-12 Finance

# Final Report
# to
# the Washington State Legislature

December 1995

# Joint Legislative Fiscal Study Committee Members

Rep. Ian Elliot (Co-Chair)

Rep. Mary Lou Dickerson

Rep. Greg Fisher

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Rep. Julia Patterson

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Sen. Dwight Pelz (Co-Chair)

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# PROLOGUE

The 1993 legislature created a legislative fiscal study committee to study the common school funding system. The task of this committee was to submit a report to the legislature on its findings and any recommendations for a new funding model for the common school system. The due date for the study was extended by the 1994 legislature to December 31, 1995.

This committee has met eleven times over a three year period. In its deliberations, the committee extensively studied the K-12 finance of this state and its evolution over time. The committee studied the legal foundations of our finance system and also reviewed national legal trends. The committee took testimony from the various K-12 associations, business, parents and independent analysts on the strengths and weaknesses of the finance system.

The committee recognized the political and technical difficulties of recommending adoption of a new finance system. The experience of this state and other states is that it is difficult for a legislature to significantly alter a finance system in a short time span. Financial or legal crises have been the reason for most of the recent overhauls of the K-12 finance system. Neither of these conditions is currently present in Washington. The committee recognized that it would neither put out a majority report or pass legislation through both houses which drastically alters our current finance system.

However, the committee did want to recognize in its report some of the strongly-held beliefs of the committee members regarding our K-12 finance system. These beliefs are contained in Part Three. They represent the viewpoints of school districts and members from rural, suburban and urban districts of high, middle and low incomes.

Finally, the committee recognizes that it is necessary for the legislature to review our K-12 finance system on a regular basis even if a clear consensus does not emerge. The committee notes that the K-12 finance system is dynamic in that the legislature is continually adjusting the financing formulas each time it writes the state budget. For example, in the 1993-95 session, adjustments were made in the apportionment, bilingual and learning assistance funding formulas and in the 1995-97 session funding formulas were changed for special education, learning assistance, transportation and vocational education programs.

## REPORT COMPONENTS

Part One of the report provides a summary of Washington's K-12 finance system.

Part Two is an evaluation of how Washington's finance system relates to the principles of a good system, and an assessment of how Washington compares to the trends of changes in other states from the perspective of an independent consultant from Colorado who is an expert in the field and who was retained by the committee.

Part Three is a listing of issues regarding Washington's K-12 finance system put forth by the members of the fiscal study committee.

# BRIEF SUMMARY OF WASHINGTON'S FINANCE SYSTEM

Article IX of the Washington State Constitution establishes the education of all children as the paramount duty of the state. It requires the legislature to provide for a uniform system of public schools. It is the foundation upon which superior court and state supreme court decisions regarding school finance issues have been based since 1977. These decisions caused significant legislative changes in school funding in the late 1970s. Subsequent state laws and court decisions have further refined the initial K-12 finance changes of the late 70s.

In order to carry out its constitutional responsibility, the legislature dedicates more than 47 percent of the state's general fund to support the educational program for its 908,000 K-12 students.

State funding for public schools is based on the statutory definition of basic education and determined through the appropriations process. Within the K-12 appropriation, there are programs which have been determined, through legislation to be "basic education" programs. For funding purposes, basic education includes the following programs:

- General Apportionment
- Special Education
- Pupil Transportation
- Learning Assistance
- Bilingual
- Institutional Education

In addition to basic education programs, the K-12 appropriation includes funding for other non-basic education programs. Non-basic education programs include:

- Levy Equalization
- Block Grant
- Office of the Superintendent of Public Instruction
- Highly Capable
- Educational Service Districts
- Education Reform

For the most part, the amount of the state general fund appropriation for the system and each school district is determined by funding formulas which are driven by enrollment counts. Basic education program funding is based on formulas that are mostly staff driven (based on student to staff ratios) with some allowances for materials and supplies. Some of the non-basic education programs are also formula funded, based on dollars/student.

Almost 80 percent of the state funds are allocated to school districts thorough the general apportionment formula as specified both in statue and in the biennial appropriations act. This main formula is a staffing formula which provides resources based mostly on staff-per-student ratios. Once a district's staff allocations are determined, there are provisions to recognize salary differences among the 296 school districts based on the experience and education of each district's staff. In addition, funds are provided for supplies and materials, non-employee related costs (NERC).

# PART I

Provides a summary of Washington's K-12 finance system and is divided into three sections:

**SECTION 1 (Pages 6-20)**
Provides financial data and enrollment information
and what led to the major K-12 finance court cases.

**SECTION 2 (Pages 21-29)**
Explains how the main K-12 finance formulas work.

**SECTION 3 (Pages 30-39)**
Provides details of district financial and staffing practices.

# PART II

**(Pages 40-47)**

Part Two is an evaluation of how Washington's finance system relates to the principles of a "model" system, and an assessment of how Washington compares with national trends on changes in school finance systems. This assessment was prepared by an independent consultant from Colorado who is an expert in the field and who was retained by the committee.

# PART III

**(Pages 48-50)**

Part Three is a listing of issues regarding Washington's K-12 finance system put forth by the members of the fiscal study committee.

# ADDENDUM

**(Pages 51-53)**

Opinions of strengths and weaknesses of the K-12 Finance System presented to the Committee by a group of panelists at the October 18, 1995 meeting.

# Part I: Section 1

The intent of the first section is to provide the context of K-12 workload and financial patterns.

**A high percentage of student enrollments in public schools are concentrated in a small number of the state's school districts.**

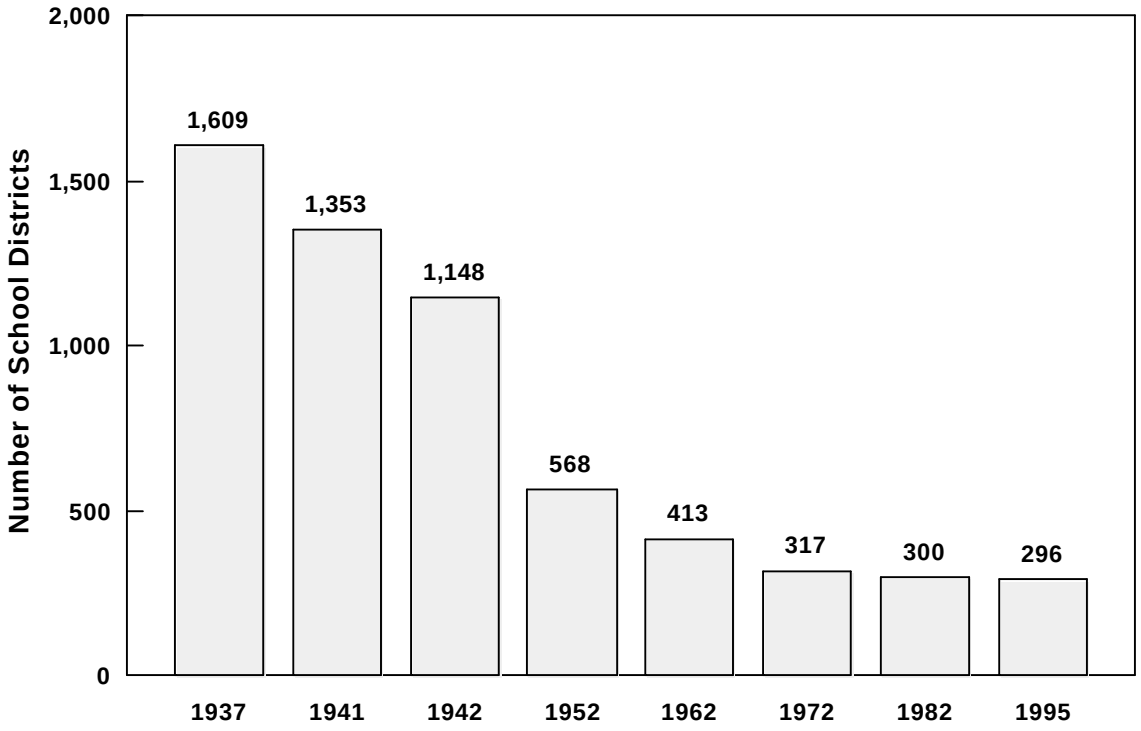
| SIZE GROUP | NUMBER OF DISTRICTS | TOTAL FTEs | PERCENT OF TOTAL FTEs | CUMULATIVE NO. OF DISTRICTS | CUMULATIVE PERCENT OF FTEs |
|---|---|---|---|---|---|
| STATE TOTAL | 296 | 885,722 | 100.0% | | |
| > 20,000 | 5 | 148,417 | 16.8% | 5 | 16.8% |
| 10,000-19,999 | 21 | 294,167 | 33.2% | 26 | 50.0% |
| 5,000-9,999 | 20 | 146,286 | 16.5% | 46 | 66.5% |
| 1,000-4,999 | 102 | 243,928 | 27.5% | 148 | 94.0% |
| 500 - 999 | 46 | 33,504 | 3.8% | 194 | 97.8% |
| 250-499 | 32 | 11,378 | 1.3% | 226 | 99.1% |
| 100-250 | 37 | 6,350 | 0.7% | 263 | 99.8% |
| 50-99 | 17 | 1,223 | 0.1% | 280 | 99.9% |
| 0-49 | 16 | 469 | 0.1% | 296 | 100.0% |

Two-thirds (588,871 FTEs) of the state's public school students are educated in 16 percent of the state's school districts (46 of 296). These districts range in size of 5,300 (Moses Lake) to over 42,000 (Seattle) FTEs.

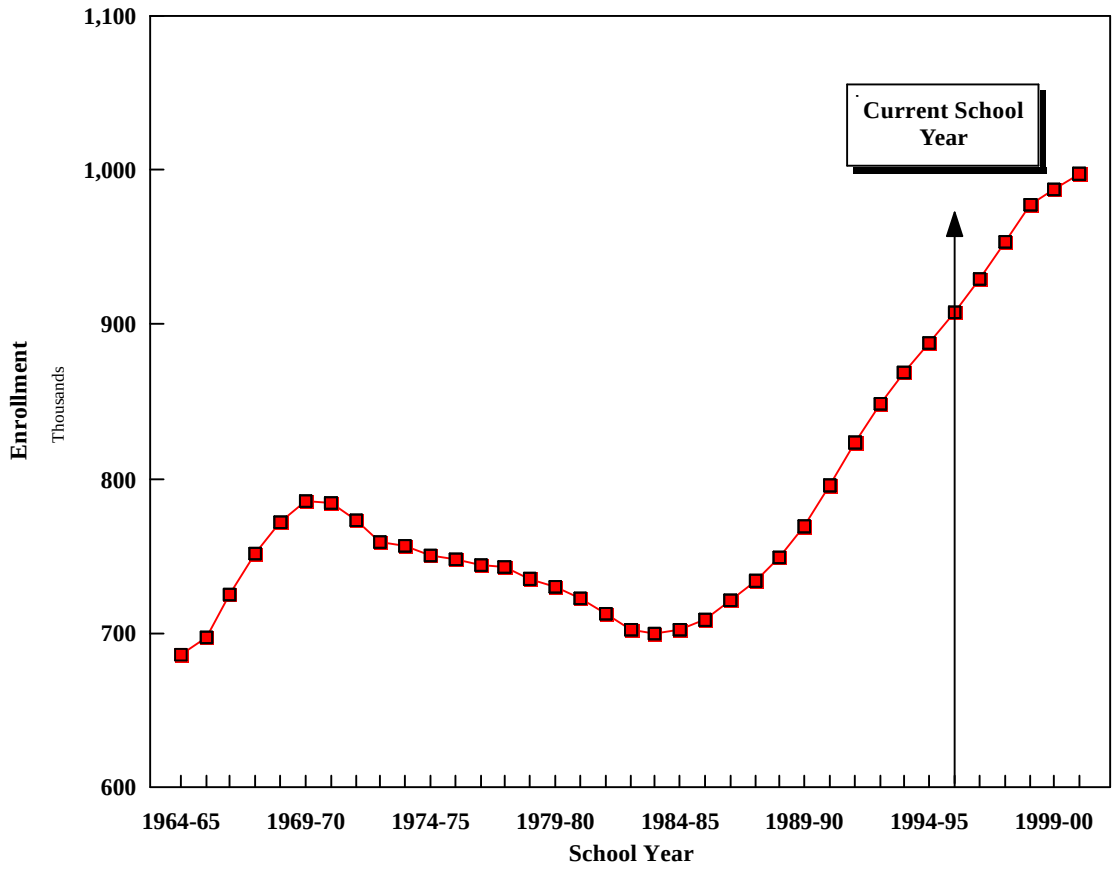
The remaining 33 percent of public school enrollments are in 250 districts. These districts range in size of 5.7 (Benge) full time equivalent (FTE) students to 4,800 (Port Angeles) FTEs. 70 districts have enrollments of less than 250 students.

Oregon, with two thirds of Washington's enrollment, has over 340 school districts.

# SINCE 1937, THE NUMBER OF SCHOOL DISTRICTS IN WASHINGTON HAS DECLINED FROM 1609 TO 296.



**Because enrollment is one of the two main variables of cost, forecasted increases in enrollment will add to the cost of public schools.**




- Enrollments declined from 1970 to 1985 by 11 percent and increased from 1985 to 1995 by over 26 percent.

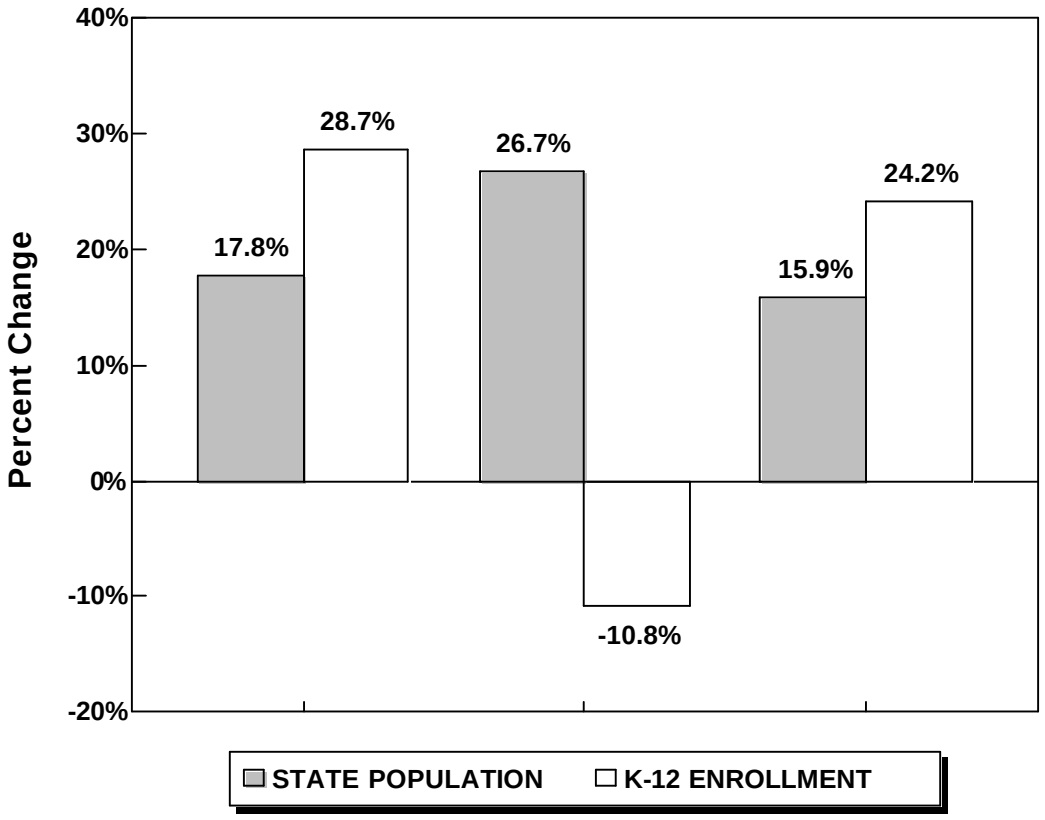
- Enrollment growth of over 20,000 per year is expected to continue until 1999 after which enrollment growth will slow to 11,000 in the year 2000.

- Public enrollments will grow faster than state population through the 1998-99 school year due mostly to the effect of the "baby boom echo" on youth age population relative to the older population.

- "Risks" to the accuracy of the forecast include in-migration and transfers to non-public education.

- Nationally, overall enrollment took 14 years to reach the previous high (1978-79) of 39.2 million students in 1993-94; high school seniors will not reach their 1978-79 level of 2.8 million until the year 2005.

## K-12 enrollment and state population do not grow at the same pace.



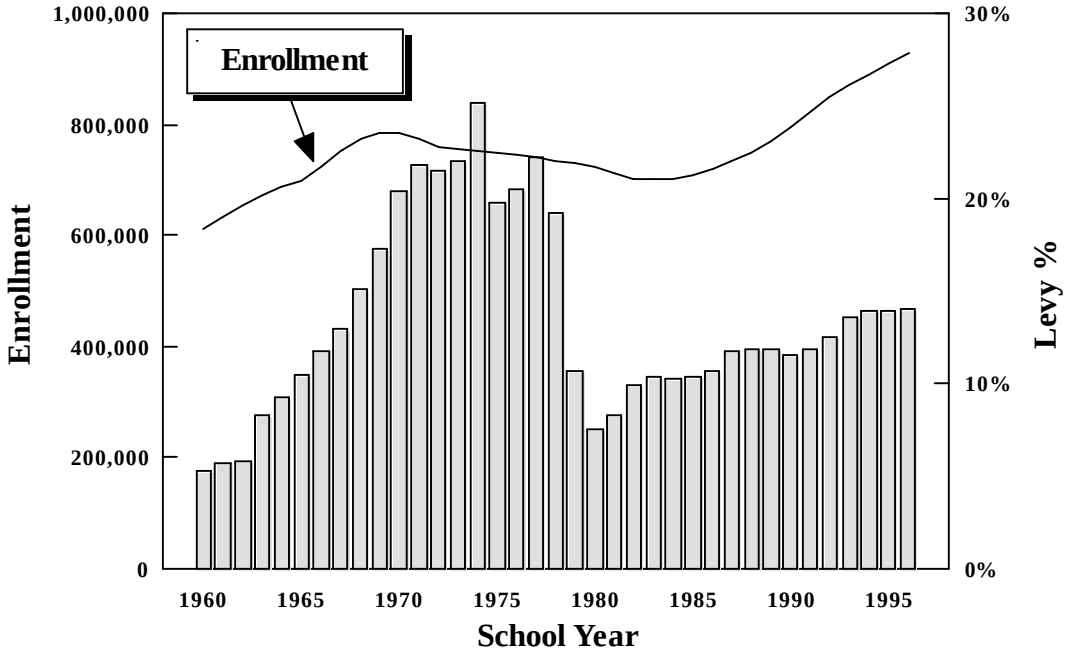

- From 1961-1970, K-12 enrollment was outpacing state population growth by 61 percent.
- From 1971-1984, K-12 enrollment declined by almost 11 percent, while the state population grew almost 27 percent.
- From 1985-2000, K-12 enrollment is expected to grow 42 percent faster than state population growth.
- Pressure is exerted on the state budget whenever K-12 enrollment growth significantly exceeds state population growth due to the constitutional priority to make K-12 education the "paramount duty", and the entitlement nature of the main K-12 programs.

## The rate of growth in K-12 enrollments will continue to exceed state population growth until the 1999-00 school year.

| | STATE POPULATION | | | K-12 ENROLLMENT | | |
|---|---|---|---|---|---|---|
| Year | Population | Percent Change | Period Percent Change | Enrollment | Percent Change | Period Percent Change |
| 1960-61 | 2,897,000 | | | 610,230 | | |
| 1961-62 | 2,948,000 | 1.8% | | 631,630 | 3.5% | |
| 1962-63 | 2,972,000 | 0.8% | | 653,070 | 3.4% | |
| 1963-64 | 3,008,000 | 1.2% | | 671,410 | 2.8% | |
| 1964-65 | 3,065,000 | 1.9% | | 685,970 | 2.2% | |
| 1965-66 | 3,125,000 | 2.0% | | 696,426 | 1.5% | |
| 1966-67 | 3,223,000 | 3.1% | | 724,759 | 4.1% | |
| 1967-68 | 3,336,000 | 3.5% | | 751,352 | 3.7% | |
| 1968-69 | 3,397,000 | 1.8% | | 771,725 | 2.7% | |
| 1969-70 | 3,413,200 | 0.5% | 17.8% | 785,549 | 1.8% | 28.7% |
| 1970-71 | 3,436,300 | 0.7% | | 784,522 | -0.1% | |
| 1971-72 | 3,430,300 | -0.2% | | 772,780 | -1.5% | |
| 1972-73 | 3,444,300 | 0.4% | | 759,369 | -1.7% | |
| 1973-74 | 3,508,700 | 1.9% | | 756,085 | -0.4% | |
| 1974-75 | 3,567,900 | 1.7% | | 750,057 | -0.8% | |
| 1975-76 | 3,634,900 | 1.9% | | 748,106 | -0.3% | |
| 1976-77 | 3,715,400 | 2.2% | | 744,363 | -0.5% | |
| 1977-78 | 3,836,200 | 3.3% | | 742,098 | -0.3% | |
| 1978-79 | 3,979,200 | 3.7% | | 735,070 | -0.9% | |
| 1979-80 | 4,132,200 | 3.8% | | 729,602 | -0.7% | |
| 1980-81 | 4,229,300 | 2.3% | | 722,744 | -0.9% | |
| 1981-82 | 4,276,500 | 1.1% | | 712,769 | -1.4% | |
| 1982-83 | 4,307,200 | 0.7% | | 701,777 | -1.5% | |
| 1983-84 | 4,354,100 | 1.1% | 26.7% | 699,622 | -0.3% | -10.8% |
| 1984-85 | 4,415,800 | 1.4% | | 702,550 | 0.4% | |
| 1985-86 | 4,462,200 | 1.1% | | 708,949 | 0.9% | |
| 1986-87 | 4,527,100 | 1.5% | | 720,744 | 1.7% | |
| 1987-88 | 4,616,900 | 2.0% | | 733,872 | 1.8% | |
| 1988-89 | 4,728,100 | 2.4% | | 748,418 | 2.0% | |
| 1989-90 | 4,866,700 | 2.9% | | 768,619 | 2.7% | |
| 1990-91 | 5,000,400 | 2.7% | | 795,736 | 3.5% | |
| 1991-92 | 5,116,700 | 2.3% | | 823,040 | 3.4% | |
| 1992-93 | 5,240,900 | 2.4% | | 848,967 | 3.2% | |
| 1993-94 | 5,334,400 | 1.8% | | 868,924 | 2.4% | |
| 1994-95 | 5,414,900 | 1.5% | | 887,265 | 2.1% | |
| 1995-96 | 5,492,000 | 1.4% | | 908,799 | 2.4% | |
| 1996-97 | 5,569,314 | 1.4% | | 929,429 | 2.3% | |
| 1997-98 | 5,645,090 | 1.4% | | 953,251 | 2.6% | |
| 1998-99 | 5,719,739 | 1.3% | | 977,962 | 2.6% | |
| 1999-00 | 5,795,008 | 1.3% | 15.9% | 988,363 | 1.1% | 24.2% |

- Overall population data often mask extraordinary growth in categories within the general populations which may be of significant consequence if special cost factors are unique to the category. Considering K-12, the growth of categorical programs such as Special Education, Bilingual Education and the Learning Assistance Program impact the cost of public education in manners that an assessment based on review of general enrollment growth would overlook.

## Levy revenue as a percent of total revenue tends to increase during times of rapid and sustained K-12 enrollment increases.




- From 1960 to 1974-75, K-12 enrollment increased more than 22 percent and so did school district reliance on special levies, with levies as a percent of total revenue increasing from 5.3 percent to 25.2 percent.

- From 1950-1975, the levy rate per $1000 of assessed property value increased from $0.65/$1000 to $7.10/$1000.

- In 1975, 65 districts lost $184 million in levies for collection in 1976. The 1975-76 legislature provided $65 million in relief for these districts (Chapter 2, Laws of 1975-76, 2d Ex. Sess.). In 1975, 24 school districts sued the state of Washington on the grounds that the state failed to make ample provision for education as required by the constitution.

- In 1977 the legislature enacted a levy lid act which took effect in 1978. In that same year, the legislature enacted the basic education act and began phasing in full funding of basic education defined as a way of providing adequate state funding.

- Since 1980, the legislature has amended the levy lid law 11 times, and levies as a percent of total revenues have been slowly increasing. Levies as a percent of total revenues were below 8 percent in the early 1980s, and exceed 14 percent in 1996. This is still far below the level which existed in the mid 1970s.

# Major changes in revenue per pupil from year to year are mostly a function of compensation policy.

| | | | Type of Revenue Dollars per Pupil | | | | Type of Revenue Percent of Total | | |
|---|---|---|---|---|---|---|---|---|---|
| School Year (1) | FTE K-12 Pupils | Total Revenue Per Pupil | Fed $ Per Pupil | M&O Levies/ Pupil | State $ Per Pupil | State $ Change over Prev. Year | Federal Revenue | Special Levies | State & Other Revenue |
| **1960-61** | 610,230 | $456 | $22.5 | $24.3 | $409.4 | | 4.9% | 5.3% | 89.8% |
| **1961-62** | 631,630 | $500 | $23.3 | $28.3 | $448.2 | $39 | 4.7% | 5.7% | 89.7% |
| **1962-63** | 653,070 | $524 | $25.6 | $30.8 | $468.1 | $20 | 4.9% | 5.9% | 89.3% |
| **1963-64** | 671,410 | $515 | $21.6 | $42.6 | $450.7 | ($17) | 4.2% | 8.3% | 87.5% |
| **1964-65** | 685,970 | $547 | $28.6 | $51.0 | $467.4 | $17 | 5.2% | 9.3% | 85.4% |
| **1965-66** | 696,426 | $548 | $43.7 | $57.3 | $447.4 | ($20) | 8.0% | 10.4% | 81.6% |
| **1966-67** | 724,759 | $648 | $50.6 | $76.2 | $520.9 | $73 | 7.8% | 11.8% | 80.4% |
| **1967-68** | 751,352 | $704 | $49.1 | $91.0 | $564.0 | $43 | 7.0% | 12.9% | 80.1% |
| **1968-69** | 771,725 | $764 | $49.4 | $115.3 | $599.3 | $35 | 6.5% | 15.1% | 78.4% |
| **1969-70** | 785,549 | $876 | $55.8 | $151.0 | $669.0 | $70 | 6.4% | 17.2% | 76.4% |
| **1970-71** | 784,522 | $976 | $68.7 | $199.4 | $707.9 | $39 | 7.0% | 20.4% | 72.5% |
| **1971-72** | 772,780 | $1,027 | $90.2 | $223.7 | $712.9 | $5 | 8.8% | 21.8% | 69.4% |
| **1972-73** | 759,369 | $1,079 | $94.7 | $231.9 | $752.7 | $40 | 8.8% | 21.5% | 69.7% |
| **1973-74** | 756,085 | $1,265 | $98.9 | $278.8 | $887.2 | $134 | 7.8% | 22.0% | 70.1% |
| **1974-75** | 750,057 | $1,366 | $119.7 | $343.8 | $902.3 | $15 | 8.8% | 25.2% | 66.1% |
| **1975-76** | 748,084 | $1,533 | $136.9 | $303.3 | $1,092.8 | $190 | 8.9% | 19.8% | 71.3% |
| **1976-77** | 744,362 | $1,642 | $143.1 | $336.9 | $1,162.5 | $70 | 8.7% | 20.5% | 70.8% |
| **1977-78** | 742,085 | $1,990 | $168.6 | $443.3 | $1,378.4 | $216 | 8.5% | 22.3% | 69.3% |
| **1978-79** | 734,917 | $2,229 | $190.0 | $427.3 | $1,612.2 | $234 | 8.5% | 19.2% | 72.3% |
| **1979-80** | 729,450 | $2,666 | $208.0 | $283.8 | $2,174.4 | $562 | 7.8% | 10.6% | 81.6% |
| **1980-81** | 722,623 | $2,773 | $227.0 | $208.7 | $2,337.7 | $163 | 8.2% | 7.5% | 84.3% |
| **1981-82** | 712,769 | $2,878 | $169.1 | $239.3 | $2,469.1 | $131 | 5.9% | 8.3% | 85.8% |
| **1982-83** | 701,777 | $3,155 | $190.7 | $314.3 | $2,649.7 | $181 | 6.0% | 10.0% | 84.0% |
| **1983-84** | 699,622 | $3,441 | $204.3 | $356.9 | $2,880.3 | $231 | 5.9% | 10.4% | 83.7% |
| **1984-85** | 702,550 | $3,642 | $208.2 | $373.4 | $3,060.8 | $181 | 5.7% | 10.3% | 84.0% |
| **1985-86** | 708,949 | $3,731 | $237.0 | $387.5 | $3,107.0 | $46 | 6.4% | 10.4% | 83.3% |
| **1986-87** | 720,744 | $4,077 | $256.5 | $434.7 | $3,386.0 | $279 | 6.3% | 10.7% | 83.0% |
| **1987-88** | 733,872 | $4,109 | $264.5 | $483.7 | $3,361.0 | ($25) | 6.4% | 11.8% | 81.8% |
| **1988-89** | 748,418 | $4,375 | $284.5 | $521.1 | $3,569.6 | $209 | 6.5% | 11.9% | 81.6% |
| **1989-90** | 768,619 | $4,682 | $293.9 | $555.2 | $3,832.9 | $263 | 6.3% | 11.9% | 81.9% |
| **1990-91** | 795,736 | $5,111 | $307.6 | $588.9 | $4,214.7 | $382 | 6.0% | 11.5% | 82.5% |
| **1991-92** | 823,040 | $5,303 | $318.6 | $631.9 | $4,352.0 | $137 | 6.0% | 11.9% | 82.1% |
| **1992-93** | 848,967 | $5,555 | $333.1 | $694.3 | $4,527.5 | $176 | 6.0% | 12.5% | 81.5% |
| **1993-94** | 868,924 | $5,661 | $358.6 | $770.4 | $4,532.2 | $5 | 6.3% | 13.6% | 80.1% |
| **1994-95** | 887,265 | $5,795 | $368.8 | $806.4 | $4,619.9 | $88 | 6.4% | 13.9% | 79.7% |
| **1995-96** | 908,799 | $5,872 | $378.1 | $834.5 | $4,659.2 | $39 | 6.4% | 14.2% | 79.3% |
| **1996-97** | 929,429 | $5,971 | $388.2 | $864.9 | $4,717.7 | $59 | 6.5% | 14.5% | 79.0% |

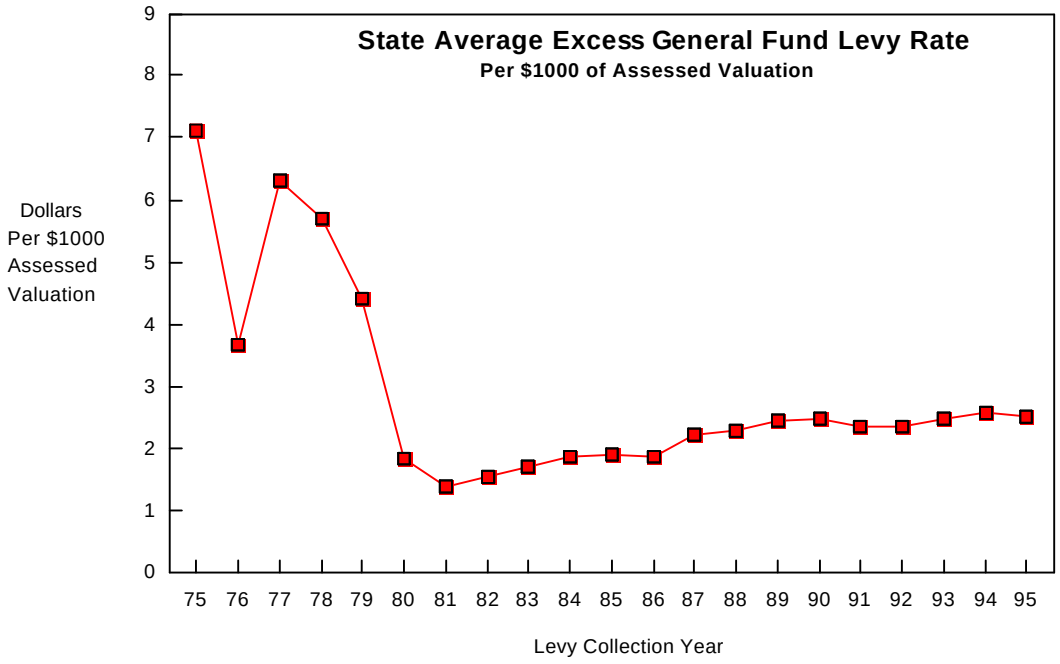
- The increase in special levies as a portion of type of revenue from the late 1960s to the midele 1970s reflects the conditions leading to the school funding litigation.

# With inception of the levy lid law in 1978, levy rates per $1000 of assessed property value declined dramatically. Since 1985 levy rates/$1000 have been slowly increasing.

## History of Certified Excess General Fund Levies
### 1975-95 Collections

| Collection Year | Special Levy Assessed Value | Certified Levy | FTE Students* | Assessed Value/FTE | Levy Rate $/1000 | Levy Per Student |
|---|---|---|---|---|---|---|
| | ==========ALL DISTRICTS========== | | | | | |
| 1975 | $42,102,530,625 | $299,119,863 | 757,254 | $55,599 | $7.10 | $395 |
| 1976 | 45,720,451,776 | 167,401,902 | 755,255 | 60,536 | 3.66 | 222 |
| 1977 | 51,628,300,300 | 325,308,505 | 751,132 | 68,734 | 6.30 | 433 |
| 1978 | 60,171,788,507 | 341,997,043 | 748,984 | 80,338 | 5.68 | 457 |
| 1979 | 66,943,834,225 | 295,017,156 | 741,443 | 90,289 | 4.41 | 398 |
| 1980 | 77,465,689,190 | 142,858,449 | 760,771 | 101,825 | 1.84 | 188 |
| 1981 | 109,298,621,831 | 152,100,918 | 728,187 | 150,097 | 1.39 | 209 |
| 1982 | 122,632,338,299 | 186,986,494 | 720,156 | 170,286 | 1.52 | 260 |
| 1983 | 145,240,878,794 | 247,743,267 | 707,920 | 205,166 | 1.71 | 350 |
| 1984 | 140,517,105,886 | 260,477,644 | 705,421 | 199,196 | 1.85 | 369 |
| 1985 | 146,530,580,778 | 278,243,779 | 708,535 | 206,808 | 1.90 | 393 |
| 1986 | 151,665,001,214 | 283,900,278 | 702,682 | 215,837 | 1.87 | 404 |
| 1987 | 157,914,216,520 | 349,857,531 | 709,081 | 222,703 | 2.22 | 493 |
| 1988 | 161,389,416,037 | 369,752,484 | 720,878 | 223,879 | 2.29 | 513 |
| 1989 | 170,640,469,002 | 418,518,182 | 734,062 | 232,461 | 2.45 | 570 |
| 1990 | 178,122,370,184 | 441,531,571 | 748,639 | 237,928 | 2.48 | 590 |
| 1991 | 217,088,939,734 | 510,251,620 | 768,639 | 282,433 | 2.35 | 664 |
| 1992 | 234,446,716,042 | 547,403,154 | 795,710 | 294,638 | 2.33 | 688 |
| 1993 | 259,662,868,081 | 643,946,581 | 823,400 | 315,354 | 2.48 | 782 |
| 1994 | 275,587,971,827 | 710,784,442 | 850,098 | 324,184 | 2.58 | 836 |
| 1995 | 295,748,277,143 | 735,351,127 | 868,720 | 340,441 | 2.49 | 846 |

** FTE students for 1975-85 are October full-time equivalent (FTE) students for the prior year.*
*Beginning in 1986 FTE students are annual average resident FTE students for the school year ending in the prior calendar year.*



## In the mid 1970's, large differences existed among school districts in the amount of levy revenue per student and in district property tax rates.

**1974-75 PROPERTY TAX DIFFERENCES AMONG SCHOOL DISTRICTS**

| School District | Average Assessed Val/Pupil | 1974-75 Levy Rate Per $1,000 | Levy Revenue Per Pupil | SPECIAL LEVY Property Taxes - $25,000 Home: Actual Tax 1974-75 | SPECIAL LEVY Property Taxes - $25,000 Home: Amount of tax to Raise $500/Pupil |
|---|---|---|---|---|---|
| Seattle | $103,237 | $8.19 | $845.35 | $204.75 | $121.00 |
| Highline | 40,949 | 14.44 | 591.12 | 361.00 | 305.25 |
| Tacoma | 52,550 | 11.06 | 581.11 | 276.50 | 237.75 |
| Spokane | 47,960 | 6.30 | 301.95 | 157.50 | 260.75 |
| Kelso | 36,058 | 7.80 | 281.15 | 195.00 | 346.75 |
| Eastmont | 29,462 | 9.92 | 292.14 | 248.00 | 424.25 |
| Soap Lake | 29,245 | 15.88 | 464.27 | 397.00 | 427.50 |
| Centralia | 100,263 | 2.48 | 248.32 | 62.00 | 124.75 |
| San Juan | 214,653 | 1.99 | 428.08 | 49.75 | 58.25 |
| Rochester | 43,236 | 1.32 | 57.16 | 33.00 | 288.50 |
| Statewide Avg. (Dist with Levies) | $56,869 | $7.86 | $446.85 | $196.50 | $219.75 |

**Source: Miller Report, 1975**

- Column 1 of the table shows that in 1975 there were large differences among districts with San Juan School District having $214,653 in assessed value per student while Soap Lake was the lowest with $29,245 of assessed value per student.

- These differences in assessed value per student led to large differences in the amount of revenue per pupil that could be raised with a given levy rate per $1000 of assessed value and lead to differing tax burdens among districts.

- Today, of the districts in the above example, only Rochester experienced an increase (to $3.48); all others are at lower rates per $1,000, some dramatically: Soap Lake ($3.70), Highline ($2.96), Tacoma ($7.69), Eastmont ($2.74) and Seattle ($1.73).

**The 1975 legislature commissioned a study to examine problems related to K-12 financing. This study became known as the Miller Report. An excerpt from the report is provided below.**

## 1975 MILLER REPORT REGARDING WASHINGTON'S SYSTEM OF K-12 FINANCE IN THE MID 70s

"The present system of financing Washington State's common schools is the major contributing factor in creating unequal educational opportunities among students across the state and in creating inequalities in the relative tax burden borne by property owners.

While the guarantee concept and equalization concepts of the present system of financing Washington State's ..... schools are sound, these concepts are effectively negated by the large amount of special levy property tax revenue used to finance schools.

Special levy revenue is not distributed equally across the state on a per-pupil basis, nor is the special levy property tax burden equalized among property owners. These two aspects .... and the increased dependence by schools on special levies create substantial inequities in the staffing and resources available to students as well as inequities in taxation among property owners."

**SOURCE: MILLER REPORT, 1975**

# Events leading to the 1970s finance litigation:

The years 1973 through 1975 were tumultuous for K-12. Districts' reliance on special levies had grown greatly over time followed by massive levy failures (65 school districts).

In 1973, in Northshore School District v. State of Washington, the state finance system was challenged on the grounds that differences in assessed property value per student among districts resulted in unequal educational opportunities. The court rejected this argument.

Prior to these years of fiscal ferment, the legislature and Governor made two attempts to amend the state constitution (Article VII) to authorize a net income tax with limitation on regular property tax levies and reduction in other taxes (primarily sales and business and occupation taxes) in the implementing legislation. The 1969 legislature enacted HJR 42 which was on the ballot in the 1970 general election. It failed by a margin of over two to one. A second attempt was made by the Governor and the 1973 legislature in the form of HJR 37. This measure would have permitted a graduated net income tax on individuals and corporations with constitutional reductions and limits on other state-imposed taxes. This measure failed in the 1974 general election by over three to one. The implementing legislation in both of these income tax efforts included a proposed, totally new K-12 allocation system virtually identical to what the 1977 legislature adopted as part of its definition of a basic program of education. Since both proposed constitutional amendments failed, the proposed new school allocation formula fell by the wayside until 1977.

In 1976, 24 school districts filed suit against the state on the grounds that state funding of K-12 education did not provide ample funding as required in the paramount duty clause of the state constitution. This time, school districts largely prevailed. The major principles of the court case are discussed on the next page.

# Legal principles concerning school funding:

Washington's current K-12 Finance System is based on legislative actions as a result of two court cases focusing on problems of reliance on local levies and the "Paramount Duty" clause of the State Constitution:

Article IX § 1 of the Washington State Constitution declares, "It is the paramount duty of the state to make ample provision for the education of all students...". §2 states "The Legislature shall provide for a general and uniform system of schools..."

Two court decisions, in 1977 and 1983, described the state's duty under these articles. These cases established the following principles in relation to school funding:

*Education is the "paramount duty" of the state and takes precedence over all other state financial obligations.*

*The Legislature must define basic education and provide adequate funding for those programs.*

*The most important factors in determining adequate funding are staff compensation and pupil/staff ratios.*

*Programs defined by the legislature as basic education are: regular apportionment, vocational education, special education, most of pupil transportation, transitional bilingual education, and a remediation (learning) assistance program.*

*Local school operations levies may be allowed as long as they enrich programs outside the legislative definition of basic education and are not used to reduce the state's obligation to fund basic education.*

*It is the Legislature's obligation to establish a sufficient salary to attract and retain competent teachers.*

*Once the Legislature has established what is considered to be 100 percent funding of basic, it cannot reduce that funding level due to state revenue problems without redefining basic education.*

*The funding formula is not "cast in concrete"; it is the continuing obligation of the legislature to review the formula as the education system evolves and changes.*

# 1977 -- K-12 FINANCE REFORM LEGISLATION

The 1977 Legislature enacted the Basic Education Act, the Levy Lid Act and the Appropriations Act; three integral acts that instituted major funding reform in Washington.

The primary purpose of these acts was to adhere to the constitutional requirement that "It is the paramount duty of the state to make ample provision for the education of all children residing within its borders...", Article IX, Section 1. Other reasons were to comply with the court's finding that the funding system in effect prior to 1977 was unconstitutional, to eliminate the instability of special levy funding, and to reduce the burden of property taxes.

## BASIC EDUCATION ACT

This act defined districts' responsibilities to provide a diversified instructional program, and defined what constituted full state funding of basic education in quantifiable terms consisting of staff per student ratios (one state-funded certificated staff per twenty students and one classified staff per sixty students).

## 1977 APPROPRIATIONS ACT

While the Basic Education Act defined the program to be funded in general terms, the Appropriations Act established and implemented the specifics of the funding formula. The Basic Education Act for example did not specify the amount to be funded for non-employee related costs, salary levels, or staffing ratios for small schools or vocational education. These details were all contained in the 1977 appropriations act, and formed the basis for today's salary levels, staffing ratios and non-employee related costs amounts.

## LEVY LID ACT

In response to the 1977 court case in which the court stated that basic education funding could not be dependent upon the passage of levies, and in view of the state's increased commitment for K-12 funding, the legislature enacted the Levy Lid Act. This act allowed each district to collect special levies of not more than 10 percent of its state basic education allocation for the purpose of enriching basic education and other programs. For districts having previous revenues at levels greater than the state funding plus the 10 percent levy, a grandfather clause authorized higher levies.

The initial levy lid act has been amended numerous times, and other than limiting levies, today's levy lid act bears little resemblance to the original act.

**There are six programs that are considered to be part of basic education as currently defined by the legislature, and together these five programs account for over 95 percent of the state's K-12 general fund state budget.**

**General Fund-State Dollars in Thousands**

| PROGRAM SUMMARY GF-S | 1995-97 BUDGETED | PROGRAM PERCENT OF K-12 $ |
|---|---|---|
| *(RCW 28A.150.260)* | | |
| *(RCW 28A.160.150)* | | |
| *(RCW 28A.150.370)* | | |
| *(RCW 28A.190)* | | |
| *(RCW 28A.180)* | | |
| *(RCW 28A.165)* | | |

Note: A large portion of the bolded programs are within the legislature's current definition of basic education. However, there are some small components funded within several of these programs which are outside of the definition of basic education.

# Part I: Section 2

The purpose of the second section is to provide a history of the development of the K-12 funding formulas, demonstration of the mechanics of the current formula and recent trends in formula expenditures at the state level.

## The history of Washington's K-12 Finance System is evidence of the cycle of problems and solutions that continues to ebb and flow through the current period.

| | | |
|---|---|---|
| **1895-33** | **STATE** | Flat/pupil grants & one program apportionment. |
| | **LOCAL** | Regular property tax, equal tax rate authority. |
| **1933** | **STATE** | 1) Weighting of students by grade<br>2) Transportation program initiated - rate/mile |
| | **LOCAL** | Required counties to provide flat grant/pupil |
| **1937** | **STATE** | State levy equalization of regular levies. |
| **1942** | **STATE** | 1) Additional weighting for vocational ed. students<br>2) First small school factor, minimum wage guarantee. |
| **1944** | **STATE** | 1) Beginning of special education program<br>2) Apportionment formula changed to educational units per student |
| **1965** | **STATE** | New apportionment formula based on weighted students and a per pupil guarantee. |
| **1970** | **STATE** | Weighting added for experience and education of staff.<br>Additional small school factors added. |
| **1977** | **STATE** | Basic Education Act - staff resources/pupil formula |
| | **LOCAL** | Levy lid for special levies |
| **1979-86** | **STATE** | 1) Added formula factors: health benefits, substitutes, staff education & experience.<br>2) Inititated remediation (LAP) and bilingual programs. Major changes in special education and transportation formulas. |
| | **LOCAL** | Levy lid -- various changes. |
| **1987** | **STATE** | Apportionment formula - split allocation for certificated staff into administrative and instructional staff. Minimum instructional staff ratios established. |
| | **LOCAL** | Levy lid increased, levy equalization program initiated. |
| **1988-97** | **STATE** | K-3 class size ratio lowered. General fund-state infusion for K-12 construction. Changes in LAP & special ed formulas. |

**Prior to the 1978-79 school year, the state utilized a weighted student formula for its main funding formula. This formula assigned differing weights for particular factors as shown below.**

## PRE 1978 K-12 FINANCING SYSTEM

**WEIGHTED PUPIL GUARANTEE (for school year 1977-78)**
**@ $600 PER WEIGHTED PUPIL**

| **FORMULA WEIGHTING FACTORS** | |
|---|---|
| **BASE WEIGHT PER FULL TIME EQUIVALENT STUDENT (FTE)** | **1.00** |
| **PLUS ADDITIONAL WEIGHTING PER PUPIL AS FOLLOWS:** | |
| 1) FOR EACH VOCATIONAL FTE IN GRADES 9-12 | 1.00 |
| 2) TEACHER EXPERIENCE AND EDUCATION (Based on a table) | 0-1.0 |
| 3) DISTRICTS WITH ENROLLMENT <250 9-12 GRADE FTES | 2.00 |
| 4) NON HIGH DISTRICTS WITH LESS THAN 100 FTES | 2.00 |
| 5) SMALL SCHOOL PLANTS - DESIGNATED REMOTE & NECESSARY | 2.00 |
| 6) CONSOLIDATED DISTRICTS (FOR 4 YRS. AFTER CONSOL.) (retain addtn'l weighting if applicable prior to consolidation) | 2.00 |
| 7) FTEs RESIDING ON TAX EXEMPT PROPERTY | 0.25 |
| 8) INTERDISTRICT COOP FTEs | 0.25 |

- This formula was replaced by the current formula beginning in the 1978-79 school year.

**The basic technique used to calculate nearly 80 percent of the K-12 budget is a simple staff cost multiplied by student enrollments formula:**

## GENERAL APPORTIONMENT for 1995-96 SCHOOL YEAR

| | Staff Per 1,000 Students | Students Per Staff |
|---|---|---|
| **STAFFING RATIOS** | | |
| K-3 Certificated Instructional Staff | 54.3 | 18.42 |
| 4-12 Certificated Instructional Staff | 46 | 21.7 |
| Vocational Students per Certificated Staff | | 18.3 |
| Certificated Administrative Staff | 4.00 | 250 |
| Classified Staff | 16.67 | 60 |

| **WORKLOAD** | |
|---|---|
| K-12 FTE Enrollment | 908,692 |
| K-3 FTE Enrollment | 261,228 |
| Vocational Education Enrollment (FTE) | 52,608 |

| **SALARY COSTS (incl. salary increase)** | |
|---|---|
| Certificated Instructional Staff Average Salary | $38,026 |
| Certificated Administrator Average Salary | $44,637 |
| Classified Average Salary | $23,738 |

| **NON-SALARY COSTS** | |
|---|---|
| (books, supplies, materials, utilities, equipment, etc...) | |
| Regular Non-Employee Related Costs per Cert. Staff | $7,656 |
| Vocational NERC per Certificated Staff | $14,587 |

| **CALCULATIONS SUMMARY** | |
|---|---|
| Certificated Instructional Staff Units | 44,617 |
| Certificated Administrative Units | 3,681 |
| Classified Staff Units | 15,338 |

| **SCHOOL YEAR TOTAL** | **$3,256,987,000** |
|---|---|

| **ALLOCATION PER STUDENT** | **$3,656** |
|---|---|

**According to the Basic Education Act, the basic education formula is for allocation purposes only, however, there are some operational requirements placed on districts relating to class size which affect local control.**

# APPORTIONMENT PROGRAM STATUTORY REQUIREMENTS

- ....the ...formula....shall be for state apportionment and equalization purposes only and shall not be construed as mandating specific operational functions ..... **RCW 28A.150.260**

- ....each school district shall maintain a ratio of at least forty-six basic education certificated instructional staff to 1000 annual average full-time equivalent students.... **RCW 28A.150.100**

- .....the ratio of students per classroom teacher in grades K-3 shall not exceed the ratio in grades 4 and above. **RCW 28A.150.250**

## The state salary schedule was devised as a method to define the state's obligation for the compensation costs of basic education.

**1995-97 STATEWIDE SALARY ALLOCATION SCHEDULE**
**FOR CERTIFICATED INSTRUCTIONAL STAFF**

Each Column is Approximately 3.0% Greater

Each Row is Approximately 3.2% Greater

| Years of Service | BA | BA+15 | BA+30 | BA+45 | BA+90 | BA+135 | MA | MA+45 | MA+90 or PHD |
|---|---|---|---|---|---|---|---|---|---|
| 0 | 22,282 | 22,884 | 23,508 | 24,131 | 26,137 | 27,429 | 26,715 | 28,720 | 30,012 |
| 1 | 23,012 | 23,633 | 24,277 | 24,942 | 27,007 | 28,316 | 27,526 | 29,590 | 30,899 |
| 2 | 23,757 | 24,398 | 25,060 | 25,790 | 27,889 | 29,238 | 28,374 | 30,472 | 31,820 |
| 3 | 24,539 | 25,200 | 25,881 | 26,651 | 28,787 | 30,195 | 29,235 | 31,370 | 32,779 |
| 4 | 25,336 | 26,037 | 26,738 | 27,549 | 29,740 | 31,188 | 30,133 | 32,324 | 33,771 |
| 5 | 26,169 | 26,889 | 27,609 | 28,482 | 30,709 | 32,214 | 31,065 | 33,292 | 34,797 |
| 6 | 27,037 | 27,754 | 28,515 | 29,450 | 31,710 | 33,253 | 32,033 | 34,294 | 35,837 |
| 7 | 27,919 | 28,654 | 29,434 | 30,429 | 32,745 | 34,347 | 33,013 | 35,329 | 36,931 |
| 8 | 28,814 | 29,590 | 30,388 | 31,465 | 33,813 | 35,473 | 34,048 | 36,397 | 38,057 |
| 9 | | 30,559 | 31,396 | 32,512 | 34,915 | 36,632 | 35,095 | 37,499 | 39,215 |
| 10 | | | 32,417 | 33,613 | 36,048 | 37,822 | 36,196 | 38,632 | 40,405 |
| 11 | | | | 34,746 | 37,235 | 39,044 | 37,329 | 39,818 | 41,627 |
| 12 | | | | 35,843 | 38,452 | 40,316 | 38,508 | 41,036 | 42,900 |
| 13 | | | | | 39,700 | 41,620 | 39,726 | 42,284 | 44,203 |
| 14 | | | | | 40,955 | 42,972 | 40,981 | 43,619 | 45,556 |
| 15 | | | | | 42,020 | 44,089 | 42,046 | 44,753 | 46,740 |

*(1994-95: 20,674 Certs or 42% had 16 or more years of experience)*

| Percent of Instructional Certs in Each Column | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 5.3% | 3.4% | 3.1% | 15.6% | 15.2% | 10.3% | 10.4% | 16.1% | 20.6% |

- School districts may adopt their own schedule, except for beginning teachers, but it must reflect the overall cost assumptions of the state schedule adjusted for district staff experience and education. Over 200 school districts use the state schedule.

- Certificated Instructional Staff are staff units allocated for purposes of the basic education program; districts may choose to use the allocation for classroom teachers, librarians, counselors or other positions for which a state instructional certificate is required.

- The experience and education salary table is used in many states, however, few states have the obligation to fund it as Washington does resulting from litigation and legislative actions detailed in this report.

**In addition to the apportionment formula which allocates funds for the regular education needs of students, there are special needs formulas designed to recognize special characteristics and needs of school districts and students.**

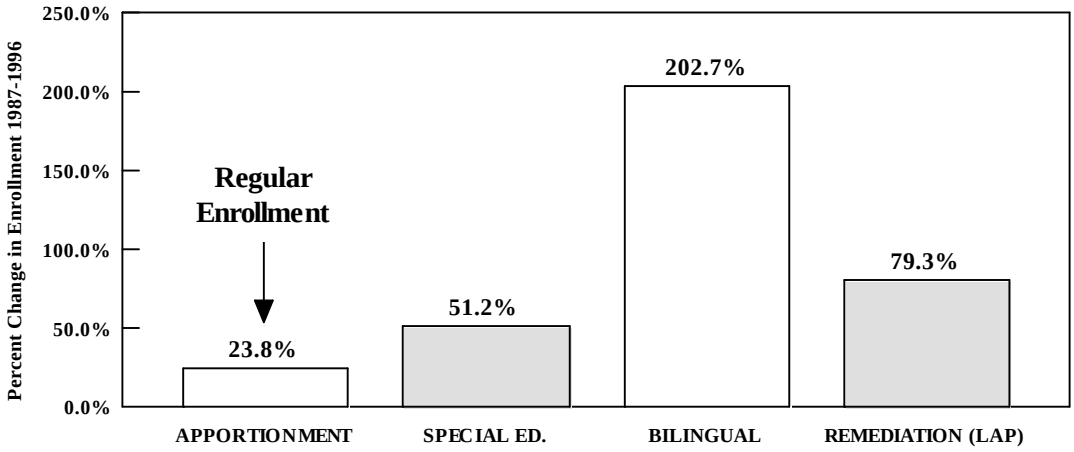
**SELECTED PROGRAM CHARACTERISTICS**
**1995-96 SCHOOL YEAR**

| | ELIGIBILITY CRITERIA | $ PER STUDENT | FUNDING DRIVER | % OF K-12 GF-S $ |
|---|---|---|---|---|
| **Apportionment** | Ages 5 thru 20 | Avg. $3,656 | 908,692 FTEs | 79.9% |
| **THE CATEGORICAL* PROGRAMS:** | | | | |
| **Special Education** | Age 0-2 & age 3-21 identified as requiring special ed. | Age 0-2, avg. $3,915 Age 3-21 avg. $3,169 | Age 0-2, 2,601pupils Age 3-21, 107,226 pupils | 9.3% |
| **Bilingual** | Students with limited english proficiency | $646 | 43,900 Students | 0.7% |
| **Learning Assistance Program (LAP)** | 96% based on bottom quartile on state test, 4% on poverty factor, for k-9 students | $378 per LAP unit | 154,036 funding units | 1.4% |
| **Highly Capable** | Funded: 1.5 % of enrollment | $303 | 13,549 Students | 0.1% |
| **Transportation (0perating)** | Mainly students living beyond one mile radius from school | $34.05 per mile | 4.2 Million Miles | 3.9% |

***** Categorical programs are programs created for specific needs and state appropriations for these programs must be expended for these programs.

## Workload in "special needs" or "categorical" programs has grown much faster than regular enrollment.

ENROLLMENT GROWTH RATES
IN SELECTED K-12 PROGRAMS 1987-96




ENROLLMENT GROWTH RATES IN K-12 PROGRAMS 1987-96

| | APPORTIONMENT ($3,656 / FTE) | | SPECIAL ED. ($3,169 or $3,915 / pupil) | | BILINGUAL ($646 / pupil) | | REMEDIATION (LAP) ($378 / unit) | |
|---|---|---|---|---|---|---|---|---|
| '87-88 | 733,872 | | 72,634 | | 14,505 | | 64,697 | |
| '88-89 | 748,418 | 2.0% | 76,155 | 4.8% | 16,877 | 16.4% | 75,893 | 17.3% |
| '89-90 | 768,619 | 2.7% | 80,236 | 5.4% | 19,344 | 14.6% | 86,749 | 14.3% |
| '90-91 | 795,736 | 3.5% | 84,808 | 5.7% | 23,513 | 21.6% | 104,123 | 20.0% |
| '91-92 | 823,040 | 3.4% | 90,302 | 6.5% | 28,156 | 19.7% | 106,270 | 2.1% |
| '92-93 | 848,967 | 3.2% | 95,743 | 6.0% | 32,084 | 14.0% | 112,767 | 6.1% |
| '93-94 | 868,924 | 2.4% | 101,138 | 5.6% | 36,219 | 12.9% | 113,115 | 0.3% |
| '94-95 | 887,265 | 2.1% | 108,335 | 7.1% | 39,885 | 10.1% | 116,031 | 2.6% |
| '95-96 | 908,692 | 2.4% | 109,827 | 1.4% | 43,900 | 10.1% | 154,036 | New Formula |
| **Change '87-96** | | **23.8%** | | **51.2%** | | **202.7%** | | **79.3% *** |

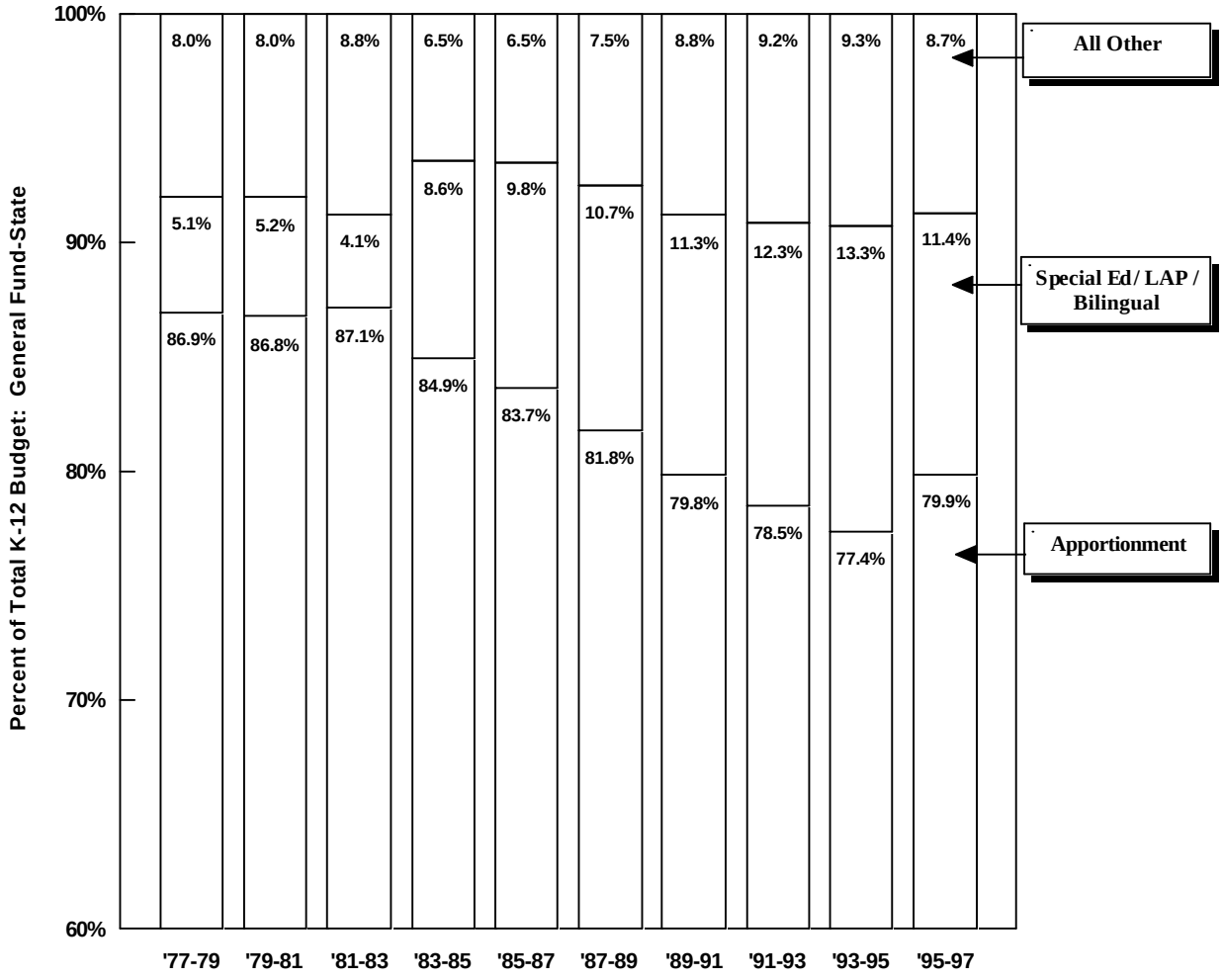
* 79.3% does not incl. '95-96

- A new funding approach for special education adopted by the 1995 Legislature may have a moderating effect on the rate of growth.

- Bilingual Education growth rates show signs of leveling and even declining in preliminary 1995 forecasts.

- LAP status: the 1995 Legislature adopted a poverty factor and LAP "units" calculations are impacted by the new special education formula. This performance based formula may be modified extensively once a state performance assessment system (being developed by the Commission on Student Learning)is available.

## Apportionment's share of the total K-12 budget has declined while other basic education programs have grown*



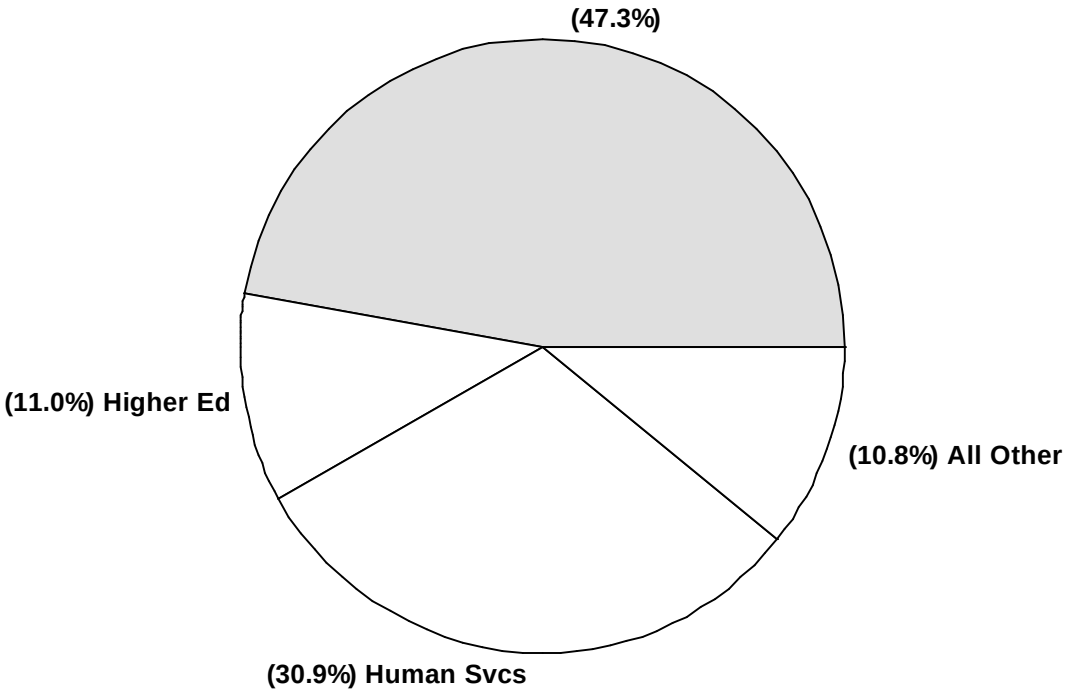

- The share of program funds going to Apportionment has declined as other categorical and special needs programs have grown. Special Education has grown the most relative to Apportionment.

# Part I: Section 3

Local decisions on budgets and staffing resulting from
their share of the state budget as well as
other fund sources is detailed in section three.
The historical patterns of general levels of budgets
are provided as well as the latest distribution of district funds
at detailed levels of object, activity and staffing.

The intent is to provide the reader an understanding
of the patterns of revenue and expenditures
as determined by school districts and relative priorities they represent.

## Washington State 1995-97 Operating Budget
## General Fund-State




**Washington State 1995-97 Operating Budget**
**General Fund-State (Dollars in 000s)**

# THE STATE ALLOCATES THE GREATEST SHARE OF ITS GENERAL FUND-STATE BUDGET FOR PUBLIC SCHOOLS.

## General Fund State Percentages By Functional Area

| | 1977-79 | 1979-81 | 1981-83 | 1983-85 | 1985-87 | 1987-89 | 1989-91 | 1991-93 | 1993-95 | 1995-97 |
|---|---|---|---|---|---|---|---|---|---|---|
| LEGISLATIVE | 0.7% | 0.7% | 0.7% | 0.7% | 0.7% | 0.8% | 0.8% | 0.7% | 0.6% | 0.6% |
| JUDICIAL | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.3 | 0.3 |
| GENERAL GVT | 1.6 | 1.7 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 | 1.1 | 1.7 |
| HUMAN RESOURCES | 23.8 | 24.0 | 23.7 | 25.3 | 27.0 | 28.5 | 29.0 | 30.4 | 30.2 | 30.9 |
| NATURAL RESOURC. | 2.1 | 2.0 | 1.7 | 1.8 | 2.2 | 2.5 | 3.0 | 2.0 | 1.7 | 1.1 |
| TRANSPORTATION | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.3 | 0.1 | 0.1 |
| TOTAL EDUCATION | 65.7 | 65.7 | 66.7 | 65.4 | 62.1 | 63.2 | 62.0 | 59.9 | 59.9 | 58.5 |
| **PUBLIC SCHOOLS** | **45.5** | **48.2** | **50.7** | **48.3** | **46.0** | **46.7** | **46.4** | **47.0** | **48.0** | **47.3** |
| COMMUNITY COLL. | 6.6 | 5.9 | 5.7 | 5.6 | 5.3 | 5.2 | 5.0 | 4.6 | 4.2 | 3.9 |
| FOUR YEAR SCHOOLS | 13.1 | 11.2 | 9.9 | 10.9 | 10.3 | 10.6 | 10.0 | 7.4 | 6.6 | 6.2 |
| ED OTHER TOTAL | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | 0.7 | 0.8 | 1.1 | 1.1 |
| SPECIAL APPROPS | 5.4 | 5.1 | 5.1 | 4.7 | 5.8 | 2.8 | 3.1 | 5.0 | 6.0 | 6.7 |

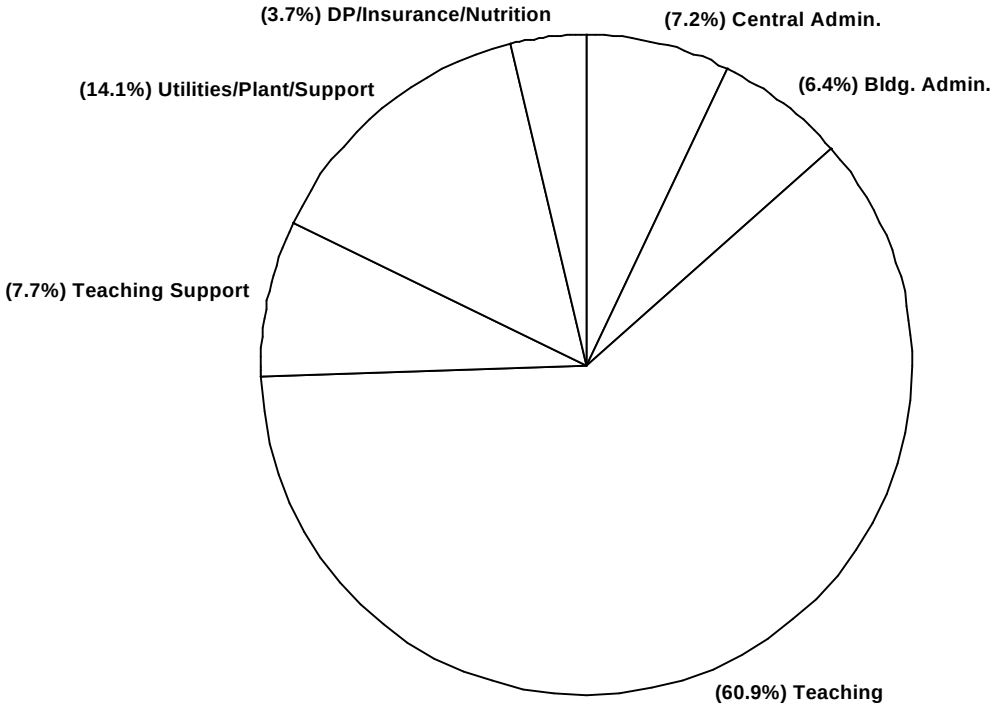
# SOURCE OF FUNDS FOR COMMON SCHOOL MAINTENANCE AND OPERATIONS

**1960 - 1997 (Estimate)**

| | | | Type of Revenue By Fund Source | | | Type of Revenue Percent of Total | | |
|---|---|---|---|---|---|---|---|---|
| School Year (1) | FTE K-12 Pupils | Total Revenue Per Pupil | Federal Revenue | Special Levies | State & Other Revenue | Federal Revenue | Special Levies | State & Other Revenue |
| **1960-61** | 610,230 | $456 | $13.7 | $14.8 | $249.8 | 4.9% | 5.3% | 89.8% |
| **1961-62** | 631,630 | $500 | 14.7 | 17.9 | 283.1 | 4.7% | 5.7% | 89.7% |
| **1962-63** | 653,070 | $524 | 16.7 | 20.1 | 305.7 | 4.9% | 5.9% | 89.3% |
| **1963-64** | 671,410 | $515 | 14.5 | 28.6 | 302.6 | 4.2% | 8.3% | 87.5% |
| **1964-65** | 685,970 | $547 | 19.6 | 35.0 | 320.6 | 5.2% | 9.3% | 85.4% |
| **1965-66** | 696,426 | $548 | 30.4 | 39.9 | 311.6 | 8.0% | 10.4% | 81.6% |
| **1966-67** | 724,759 | $648 | 36.7 | 55.2 | 377.5 | 7.8% | 11.8% | 80.4% |
| **1967-68** | 751,352 | $704 | 36.9 | 68.4 | 423.8 | 7.0% | 12.9% | 80.1% |
| **1968-69** | 771,725 | $764 | 38.1 | 89.0 | 462.5 | 6.5% | 15.1% | 78.4% |
| **1969-70** | 785,549 | $876 | 43.8 | 118.6 | 525.5 | 6.4% | 17.2% | 76.4% |
| **1970-71** | 784,522 | $976 | 53.9 | 156.4 | 555.4 | 7.0% | 20.4% | 72.5% |
| **1971-72** | 772,780 | $1,027 | 69.7 | 172.9 | 550.9 | 8.8% | 21.8% | 69.4% |
| **1972-73** | 759,369 | $1,079 | 71.9 | 176.1 | 571.6 | 8.8% | 21.5% | 69.7% |
| **1973-74** | 756,085 | $1,265 | 74.8 | 210.8 | 670.8 | 7.8% | 22.0% | 70.1% |
| **1974-75** | 750,057 | $1,366 | 89.8 | 257.9 | 676.8 | 8.8% | 25.2% | 66.1% |
| **1975-76** | 748,084 | $1,533 | 102.4 | 226.9 | 817.5 | 8.9% | 19.8% | 71.3% |
| **1976-77** | 744,362 | $1,642 | 106.5 | 250.8 | 865.3 | 8.7% | 20.5% | 70.8% |
| **1977-78** | 742,085 | $1,990 | 125.1 | 329.0 | 1,022.9 | 8.5% | 22.3% | 69.3% |
| **1978-79** | 734,917 | $2,229 | 139.6 | 314.0 | 1,184.8 | 8.5% | 19.2% | 72.3% |
| **1979-80** | 729,450 | $2,666 | 151.7 | 207.0 | 1,586.1 | 7.8% | 10.6% | 81.6% |
| **1980-81** | 722,623 | $2,773 | 164.0 | 150.8 | 1,689.3 | 8.2% | 7.5% | 84.3% |
| **1981-82** | 712,769 | $2,878 | 120.5 | 170.6 | 1,759.9 | 5.9% | 8.3% | 85.8% |
| **1982-83** | 701,777 | $3,155 | 133.8 | 220.6 | 1,859.5 | 6.0% | 10.0% | 84.0% |
| **1983-84** | 699,622 | $3,441 | 142.9 | 249.7 | 2,015.1 | 5.9% | 10.4% | 83.7% |
| **1984-85** | 702,550 | $3,642 | 146.3 | 262.3 | 2,150.4 | 5.7% | 10.3% | 84.0% |
| **1985-86** | 708,949 | $3,731 | 168.0 | 274.7 | 2,202.7 | 6.4% | 10.4% | 83.3% |
| **1986-87** | 720,744 | $4,077 | 184.9 | 313.3 | 2,440.5 | 6.3% | 10.7% | 83.0% |
| **1987-88** | 733,872 | $4,109 | 194.1 | 355.0 | 2,466.6 | 6.4% | 11.8% | 81.8% |
| **1988-89** | 748,418 | $4,375 | 212.9 | 390.0 | 2,671.5 | 6.5% | 11.9% | 81.6% |
| **1989-90** | 768,619 | $4,682 | 225.9 | 426.7 | 2,946.1 | 6.3% | 11.9% | 81.9% |
| **1990-91** | 795,736 | $5,111 | 244.8 | 468.6 | 3,353.8 | 6.0% | 11.5% | 82.5% |
| **1991-92** | 823,040 | $5,303 | 262.3 | 520.1 | 3,581.9 | 6.0% | 11.9% | 82.1% |
| **1992-93** | 848,967 | $5,555 | 282.8 | 589.4 | 3,843.7 | 6.0% | 12.5% | 81.5% |
| **1993-94** | 868,924 | $5,661 | 311.6 | 669.4 | 3,938.1 | 6.3% | 13.6% | 80.1% |
| **1994-95** | 887,265 | $5,795 | 327.2 | 715.5 | 4,099.1 | 6.4% | 13.9% | 79.7% |
| **1995-96** | 908,799 | $5,872 | 343.6 | 758.4 | 4,234.3 | 6.4% | 14.2% | 79.3% |
| **1996-97** | 929,429 | $5,971 | 360.8 | 803.9 | 4,384.8 | 6.5% | 14.5% | 79.0% |

# WHAT FUNCTIONS DO K-12 DOLLARS SUPPORT?

## 1993-94 K-12 EXPENDITURES BY BUDGET ACTIVITY




| BUDGETED ACTIVITIES | DOLLARS (000s) | DESCRIPTION |
|---|---|---|
| TEACHING | $2,964,959 | Classroom teachers, aides, textbooks, computers, and any other activity or supply associated with a direct teacher/learning situation. |
| TEACHING SUPPORT | 374,789 | Learning resources like librarians, libraries, and other media; guidance and counseling, speech, psychological, and health services. |
| UTILITIES/PLANT/SUPPORT | 662,595 | Utilities, grounds care, building maintenance and equipment, student transportation, printing, interest and debt payments. |
| DP/INSURANCE/NUTRITION | 207,173 | Data processing, insurance other than transportation, and food services operations. |
| CENTRAL ADMINISTRATION | 351,100 | Superintendent's Office, Business Office, program supervisors, and other managers of district-wide programs, like testing or curriculum development. |
| BUILDING ADMINISTRATION | 311,789 | Principals, Assistant Principals, other building support staff involved in management and coordination of a school unit, not district-wide. |
| **TOTAL EXPENDITURES:** | **$4,872,404** | |

**Dollar per student expenditures when displayed by budget "activity" show 68.6 percent of spending on items to be directly applied to students in the classroom or classroom related. An additional 17.8 percent are on direct support items such as school bussing, building operations & maintenance, and food operations.**

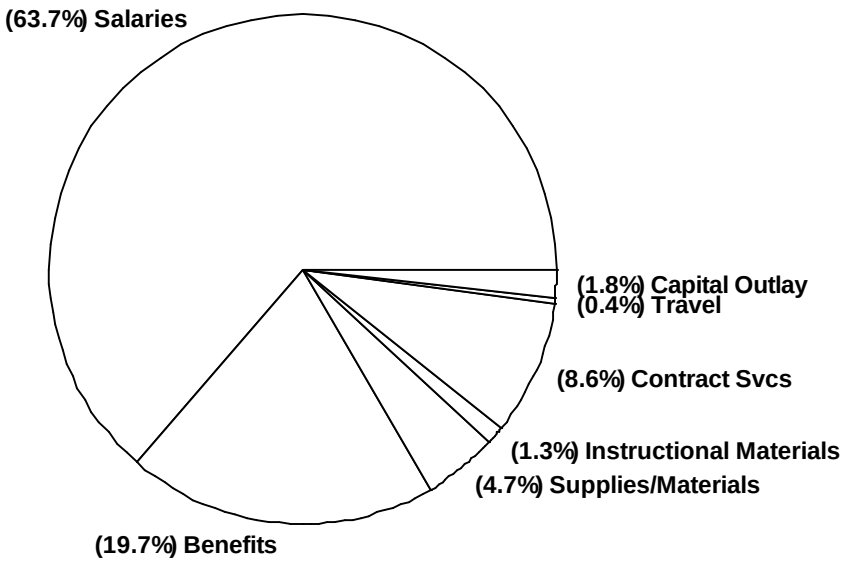
# EXPENDITURE OF TOTAL DOLLARS PER STUDENT

## 1993-94 SCHOOL YEAR

| | Expenditures per FTE Student | % of Total Expenditures | Reported 1993-94 Expenditures ($000) |
|---|---|---|---|
| **Teaching** | **$3,367** | **60.9%** | **$2,964,960** |
| *teacher compensation* | *$2,118* | *38.3%* | |
| *teacher aid salary* | *$235* | *4.2%* | |
| *teacher & teacher aid benefits* | *$724* | *13.1%* | |
| *textbooks, supplies & materials* | *$289* | *5.2%* | |
| **Teaching Support** | **$426** | **7.7%** | **$374,789** |
| *learning resources (library & librarian)* | *$128* | *2.3%* | |
| *guidance and counseling* | *$151* | *2.7%* | |
| *psychologist, speech & hearing services* | *$94* | *1.7%* | |
| *health services (nurses)* | *$52* | *0.9%* | |
| **Utilities/Plant/Support** | **$614** | **11.1%** | **$540,347** |
| *plant operations & other utilities* | *$343* | *6.2%* | |
| *maintenance of grounds, plant & equip* | *$155* | *2.8%* | |
| *printing* | *$7* | *0.1%* | |
| *data process: student & financial recds* | *$35* | *0.6%* | |
| *insurance* | *$31* | *0.6%* | |
| *miscellaneous* | *$42* | *0.8%* | |
| **Student Transportation** | **$205** | **3.7%** | **$180,897** |
| **School Lunch & Breakfast** | **$169** | **3.0%** | **$148,523** |
| **Central Administration** | **$399** | **7.2%** | **$351,100** |
| *superintendents office* | *$96* | *1.7%* | |
| *school board* | *$24* | *0.4%* | |
| *business office* | *$72* | *1.3%* | |
| *district program supervisors* | *$207* | *3.7%* | |
| **Building Administration** | **$354** | **6.4%** | **$311,789** |
| ***ACTIVITY TOTAL*** | ***$5,532*** | ***100.0%*** | ***$4,872,405*** |

# HOW DO SCHOOL DISTRICTS SPEND MONEY?

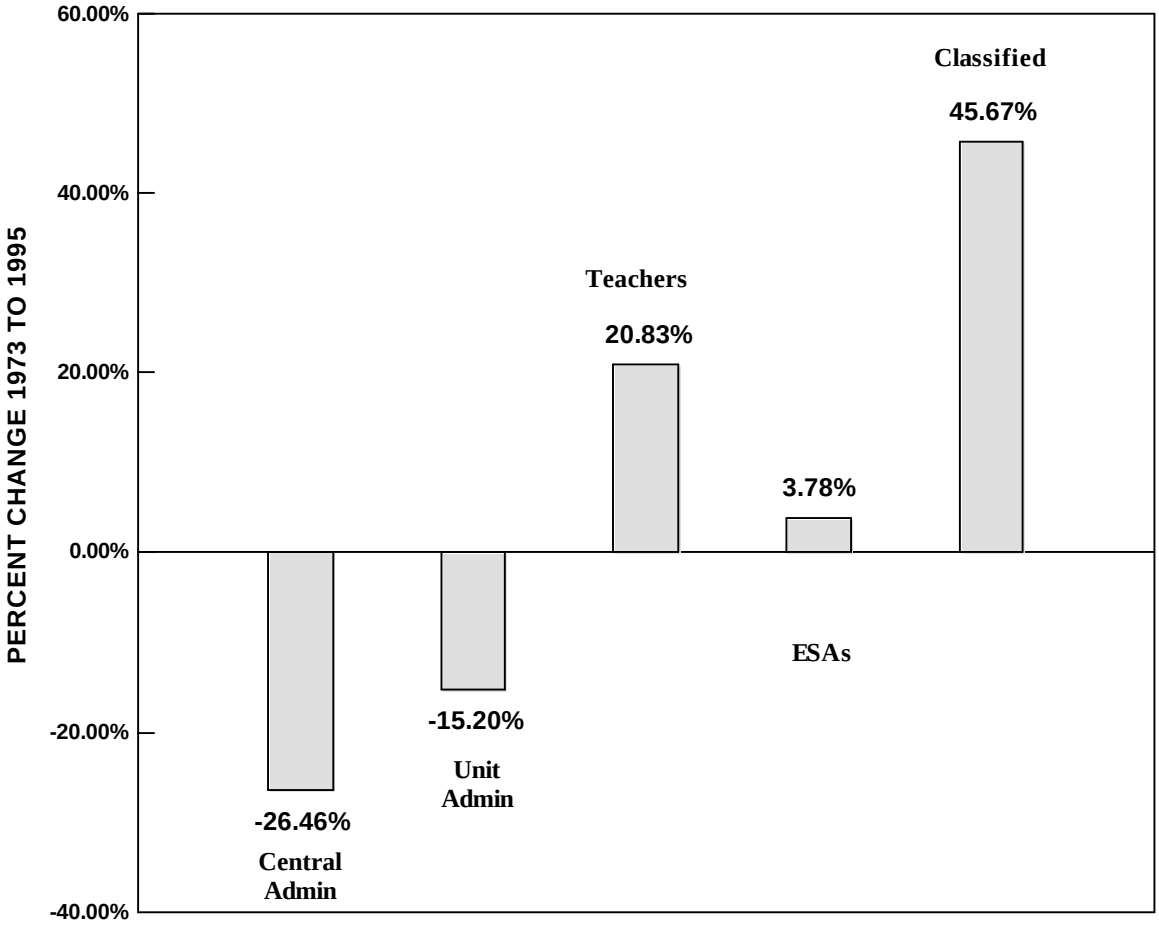
1993-94 K-12 EXPENDITURES BY BUDGET OBJECT




| OBJECTS OF EXPENDITURE | DOLLARS ($000s) |
|---|---|
| SALARIES | $3,102,705 |
| BENEFITS | $960,556 |
| SUPPLIES/MATERIALS | $228,093 |
| INSTRUCTIONAL MATERIALS | 60,934 |
| CONTRACT SERVICES | 416,829 |
| TRAVEL | 17,071 |
| CAPITAL OUTLAY | 86,216 |
| **TOTAL EXPENDITURES:** | **$4,872,405** |

- 83.4 percent of expenditures are for salaries and benefits.

# From 1973 to 1995 Administrative Staffing Per 1000 Students Declined, Whereas Instructional & Classified Staff Grew




**ADMINISTRATION**

**Central Administration** - supt., assistant supt., other certificated administrators of district wide programs.

**Unit Administration** - principals, asst. principals, other administrators who manage a program in a school.

**ESAs (Educational Staff Associates)** primarily librarians, counselors, occupational therapists, social workers, & psychologists

**CLASSIFIED STAFF** - teacher aides, office/clerical, crafts/trades, laborers, and professional or technical personnel without a teaching certificate.

- The recent large growth in classified staff is in the area of teacher aides or paraprofessional classroom assistants used especially in special education and bilingual programs.

# K - 12 STAFF PER 1,000 ENROLLED STUDENTS 1973 TO 1995

| School Year | All Education Programs | | | | | | |
|---|---|---|---|---|---|---|---|
| | Avg Annual Enrollment | Certificated | | | | | Classified Staff |
| | | Administration | | Instructional | | Total Cert. Staff | |
| | | Central | Unit | Teachers | ESAs | | |
| 1973-74 | 756,085 | 1.58 | 3.20 | 43.18 | 5.99 | 53.95 | 23.49 |
| 1974-75 | 750,057 | 1.62 | 3.22 | 44.74 | 5.39 | 54.96 | 25.37 |
| 1975-76 | 748,084 | 1.45 | 3.12 | 45.03 | 4.66 | 54.26 | 25.26 |
| 1976-77 | 744,362 | 1.41 | 3.01 | 45.19 | 4.61 | 54.22 | 25.11 |
| 1977-78 | 742,085 | 1.43 | 2.97 | 46.62 | 4.44 | 55.46 | 26.40 |
| 1978-79 | 734,917 | 1.46 | 3.09 | 47.48 | 4.62 | 56.66 | 27.41 |
| 1979-80 | 729,450 | 1.53 | 3.12 | 48.67 | 4.82 | 58.13 | 28.81 |
| 1980-81 | 722,623 | 1.57 | 3.19 | 49.26 | 5.09 | 59.12 | 29.62 |
| 1981-82 | 712,769 | 1.41 | 3.15 | 49.11 | 5.06 | 58.73 | 27.39 |
| 1982-83 | 701,777 | 1.30 | 3.12 | 48.62 | 4.94 | 57.98 | 27.02 |
| 1983-84 | 699,622 | 1.35 | 3.13 | 49.87 | 5.14 | 59.48 | 28.14 |
| 1984-85 | 702,550 | 1.38 | 3.24 | 50.85 | 5.32 | 60.79 | 29.13 |
| 1985-86 | 708,949 | 1.40 | 3.18 | 51.06 | 5.39 | 61.04 | 29.56 |
| 1986-87 | 720,744 | 1.40 | 3.03 | 51.51 | 5.54 | 61.49 | 29.96 |
| 1987-88 | 733,872 | 1.36 | 3.03 | 51.71 | 5.53 | 61.63 | 30.56 |
| 1988-89 | 748,418 | 1.37 | 3.03 | 51.87 | 5.60 | 61.91 | 31.38 |
| 1989-90 | 768,619 | 1.36 | 2.93 | 52.48 | 5.75 | 62.59 | 31.59 |
| 1990-91 | 795,736 | 1.33 | 2.93 | 52.68 | 5.81 | 62.83 | 32.41 |
| 1991-92 | 823,355 | 1.28 | 2.81 | 52.13 | 5.88 | 62.20 | 32.41 |
| 1992-93 | 848,967 | 1.23 | 2.82 | 52.22 | 5.93 | 62.38 | 33.28 |
| 1993-94 | 868,925 | 1.18 | 2.79 | 52.31 | 6.09 | 62.54 | 33.83 |
| 1994-95 | 887,265 | 1.16 | 2.71 | 52.18 | 6.22 | 62.27 | 34.22 |
| **CHANGE** | | | | | | | |
| **1973-95** | **17.35%** | **-26.46%** | **-15.20%** | **20.83%** | **3.78%** | **15.42%** | **45.67%** |

**ADMINISTRATION**

**Central Administration -** supt., assistant supt., other administrators of district wide programs.

**Unit Administration -** principals, asst. principals, other administrators who manage a program in a school.

**ESAs - Educational Staff Associates -** primarily librarians, counselors, occupational therapists, social workers, psychologists, social workers.

**CLASSIFIED STAFF -** teacher aides, office/clerical, crafts/trades, laborers, and professional or technical personnel without a teaching certificate.

**During the last 10 years student enrollment increased by 184,715 while instructional staff grew by 10,697, classified staff grew by 9,894 and administrative staff grew by 191.**

## Number of School District Personnel 1968-1995 Full-Time Equivalents (FTE)

| SCHOOL YEAR | CERTIFICATED STAFF | | | | CLASSIFIED STAFF TOTAL FTE |
|---|---|---|---|---|---|
| | ADMINISTRATION | | INSTRUCTIONAL | | |
| | CENTRAL FTE | UNIT FTE | TEACHERS FTE | ESAs FTE | |
| 1968-69 | | | | | |
| 1969-70 | | | | | |
| 1970-71 | | | | | |
| 1971-72 | | | | | |
| 1972-73 | | | | | |
| 1973-74 | | | | | |
| 1974-75 | | | | | |
| 1975-76 | | | | | |
| 1976-77 | | | | | |
| 1977-78 | | | | | |
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| 1989-90 | | | | | |
| 1990-91 | | | | | |
| 1991-92 | | | | | |
| 1992-93 | | | | | |
| 1993-94 | | | | | |
| 1994-95 | | | | | |

# PART II

Part Two is an evaluation of how Washington's finance system relates to the principles of a "model" system, and an assessment of how Washington compares with national trends on changes in school finance systems. This assessment was prepared by an independent consultant from Colorado who is an expert in the field and who was retained by the committee.

# WASHINGTON REPORT

This section of this report addresses topics as they relate to the status of the state of Washington's school finance system. First, the school funding system is examined in terms of the key components of a "model" system. Second, it is reviewed in relation to national trends in the structure of school funding systems. This section is based upon a working knowledge of many state school finance systems and on a review of descriptive information about the Washington school finance system.

## How the Washington System Works

This report reviewed several components of the Washington school finance system. These are put in context for this section of this report. Four of these features involve most of the important issues considered in examining school finance formulas. These four features are: (1) the percentage of funding coming from state sources; (2) the type of distribution formula; (3) the nature of adjustments to the distribution formula that account for student and district needs; and (4) the extent of the compensation for local property wealth differences.

The state of Washington provides over 70 percent of all revenue for K-12 districts when federal, state, and local funds are considered. That 70 percent figure comes from counting revenue for spending for all purposes, including capital. When looking at state and local funds, over 75 percent of all revenue for all purposes comes from the state. When considering just non-capital revenues, Washington provides nearly 80 percent of the dollars. This is a high level of state funding compared to a national average of about 50 percent. In fact, it is the highest level of state funding for any state system which has more than one school district.

The Basic Education Allocation formula is the method used by the state of Washington to distribute the vast majority of funds to the state's 296 school districts. It is a distribution formula based on staff units. Certificated instructional staff, administrative staff, and classified staff formula units are assigned to each school district based on enrollment. The state allocates a distinct salaries and benefits level for each district. For certificated instructional staff, these vary based on the education level and experience of the personnel. The amount of funding available to districts is determined by multiplying the staff units by the salaries and benefits level (see page 24). The student enrollment formula contains enhanced staffing ratios for early grades, small schools, and vocational education. Non-salary costs for books, supplies, materials, utilities, equipment, etc. are also provided for in the formula. This basic education allotment is paid for by the state through a general apportionment.

District special needs are recognized through adjustments to the basic education allotment and through categorical assistance programs. Student special needs are accounted for through categorical programs for: (1) special education; (2) learning assistance; (3) highly capable students; (4) transportation; and (5) bilingual education. (See pages 27-29).

Since 1987, the state has had a program to equalize a portion of local maintenance and operations levies. Districts with low property tax wealth and above average tax rates are provided state dollars to assure a guaranteed yield for local levies.

# What is an Optimal System?

State school finance systems are unique in each state. However, there are similar tendencies and there are some principles that can be used to distinguish a "good" school finance system. There is no optimal state school finance system, but for comparison purposes, seven concepts will be used to evaluate finance formulas. They are listed below, and are explained following the list.

Those seven concepts are:

(1) State aid should be sensitive to school district wealth, student and district needs, and tax effort.

(2) Variation in spending should be due to differences in student and district needs, and tax effort.

(3) School districts should have some local revenue flexibility. When they use that option, all districts have the same opportunity to generate the same revenue with the same tax effort.

(4) School districts should have some flexibility in how to spend the revenue they receive.

(5) All necessary education costs are covered by the state formula.

(6) All taxpayer groups are treated fairly with business and homeowners sharing in the property tax responsibility.

(7) The state has a procedure to measure and report on school finance equity.

# Description of Seven Principles

**1. Sensitivity to District Wealth**

Most states use a foundation formula that sets a base student cost and adjusts that amount for special district, program, and student needs. The combination of the base cost and the adjustments set a "foundation" spending level for each school district. That foundation level is funded by a mixture of state aid and local property taxes. In an optimal system, the state aid would compensate for differences in property wealth, in order to account for legitimate cost pressures. To be an optimal system, state aid to local districts must be sensitive to school district wealth, district and student needs, and tax effort. When state aid is sent to a district without considering any one of these, it is not sufficiently equalizing.

**2. Variations in Spending**

Many states have school finance formulas that do not sufficiently compensate for local revenues. When that happens local revenues vary enough that significant spending differences occur. A model system would allow variations in spending among school districts, if they reflected district and student needs and, to a small extent, differences in tax efforts.

**3. Local Revenue Flexibility**
The third principle used to differentiate a "good" school finance system involves the level of revenue. Districts should have some flexibility in the level of revenue because the state cannot always properly detect all of the district and student need adjustments. This principle suggests that local districts know better the needs that must be met. Therefore, there is a need to allow some local control of a small portion of spending.

**4. Spending Flexibility**
The fourth principle suggests that school districts should have flexibility in how to spend the revenue made available in the school funding system. Funding formulas are developed to appropriate and distribute dollars. Some states dictate the ways dollars have to be spent, yet, local school districts achieve change through spending differently. In an optimal system, the state would set the levels of funding, the level of available local revenue flexibility, and an accountability system for education quality. The local district would then determine how to spend the dollars available.

**5. All Costs Covered**
All types of spending must be covered by state school finance systems in order to have an optimal system. Some states leave capital costs, transportation costs, or another type of spending as a totally local responsibility. Those states do not have an optimal school finance system because local revenue often vary because of wealth.

**6. Taxpayer Treatment**
Taxpayer equity is one of the principles of a "good" school finance system. It involves several issues related to the impact of taxes on various taxpayers. One of those issues suggests the need to have a mix of business and home owners as property taxpayers. Another issue involves finding a way to have a uniform property tax assessment procedure. States with local assessors need a state system that provides what is known as a sales/assessment ratio study. The ratio of sales or market values to assessments gives a picture of the uniformity of property tax assessment procedures. Most states provide some property tax exemption or tax rebate for certain low income property taxpayers. These are called circuit breakers or homestead exemptions. A circuit breaker for certain low income property taxpayers also contributes to taxpayer equity.

**7. An Evaluation Procedure**
Having an evaluation procedure is the final principle used in evaluating whether a state has an optimal system. A state that has a procedure to regularly measure and report on the equity of their school finance formula is able to maintain a quality system. Some states set up special commissions and staff to continuously evaluate school finance equity and adequacy.

# How Washington Compares With An Optimal System

The state of Washington has a long history of a high level of state participation in the funding of schools. That combined with the changes made in the late 1970s positioned Washington as a leading state in school finance equity and adequacy. When compared to the seven concepts of an optimal

school finance system, the Washington school finance system does very well. In fact it meets or exceeds the expectations set out by nearly all of the concepts. Following is a review of each concept.

**1. Sensitivity to District Wealth**

The Washington system for state aid is sensitive to wealth and tax rates because it's basic school funding program is fully funded by the state. Fully funding the Basic Education Allocation as defined by the legislature means that in the basic Washington system tax rates and wealth differences do not cause wide disparities. This only becomes an issue with the small amount of local funds involved in the special levies that are not equalized.

**2. Variations in Spending**

It appears that the Washington school finance system comes close to the optimal system when considering the variations in spending. District, program, and student needs are fully funded by the state. The variations in spending are only because of the basic allotment for salaries and local levies.

**3. Local Revenue Flexibility**

Some flexibility in the level of revenue is available for school districts in Washington through local special levies. Still, Washington's school finance system indirectly limits the amount of difference in the level of revenues allowed. The amount allowed is within the level that is considered reasonable. Often states allow more than the 10-25 percent that is optimal and that would be true in states like Colorado or Kansas.

**4. Spending Flexibility**

The basic education allocation formula was designed for use just for state apportionment and equalization purposes. Still, when minimum salaries, maximum average salaries, and certain pupil teacher ratios are required, it appears that the level of flexibility suggested by this principle is not provided to districts. Few states currently provide the flexibility suggested for an optimal system and often when they do it is because of the use of local revenues that are not sufficiently equalized.

**5. All Costs Covered**

All major areas of school district spending are covered with state responsibility or state involvement in the Washington school finance system. A significant program to assist districts with capital costs exceeds that of most states. State assistance and/or full funding of transportation, special education, and other categorical programs in Washington is evidence of a state system that does a good job of covering all costs.

**6. Taxpayer Treatment**

Both businesses and homeowners pay property taxes in Washington. The property tax assessment system is done at the county level but is adjusted by the state for uniformity. The state uses a cross between a circuit breaker and a homestead exemption. The system provides some property tax protection for senior, low income home owners. Therefore, these tax equity concerns are met in the State of Washington's tax system.

**7. An Evaluation Procedure**

Although it does not appear that Washington has a regular system for the review of school finance, the staff reports available are better than in most states. In the last several years, studies of school finance have been commissioned by the legislature.

In conclusion, the state of Washington has a system of school funding that compares favorably to an optimal system.

# National Trends in Formula Changes

States have been changing school finance formulas with some regularity over the years. Again, each state is unique in why, when, and how they change their school funding formula. Still, there are some noticeable trends in state actions concerning the structure of school finance systems. Some of these trends have already been adopted in Washington. Some trends are costly, difficult to implement, or inappropriate given the current school funding system in Washington. These trends were chosen because they represent the activity that is taking place across the country.

The reasons for changes in the structure of school funding systems involve court cases, the availability of revenue, and changing state politics. Revenue changes and changes in the overall state policy environment vary among the states. Their effect on school finance changes is hard to generalize. Court cases, however, have led to a number of clear directions for school finance changes.

The court activity became important early in the 1970's. That was when the California Supreme Court found its state's system of educational funding as unconstitutional. The state of Washington and five other states joined California in changing their school funding systems over the next decade because of court action. No state systems were overturned by courts between 1983 and 1989. Most of these trends resulted from actions taken after 1989. Increased activity began in 1989 as three states (Texas, Kentucky and Montana) had systems that were found unconstitutional.

The six trends selected to make comparisons are listed below, followed by an explanation of each trend. The six trends are:

1. States are changing to new foundation formulas with new approaches to setting base costs.

2. States are adding new adjustments for certain cost pressures.

3. States are adding new second tiers to formulas to equalized opportunities above the base.

4. Some states are capping local revenue and a few are recapturing excess local property taxes.

5. Some states are enacting statewide property taxes.

6. A few states are creating performance-based incentives.

**1. Setting Base Costs**

One trend in school finance formula changes is from other types of formulas to foundation formulas. Since 1986, there has been a net increase of 10 states using the foundation formula approach. That means that 40 states now use a similar structure for providing state aid. As mentioned above, one key factor used in a foundation formula is setting the base cost. Historically, states have set their basic level of funding for schools by using historic spending patterns, the availability of revenues, and other

political methods. Often, states have not reviewed the base cost and how and why it was set at a specific level.

**2. Adjusting For Cost Pressures**

Several states have been adding new cost pressure adjustments. Examples include adjustments for cost of living, size, and at-risk youth. Colorado added a cost of living factor to their formula in 1992. Kansas added several new cost pressure adjustments with their new formula in 1990. Most states that have added adjustments for at-risk youth have targeted adjustments based on the number of economically disadvantaged students.

**3. Equalizing Above the Base**

States have been adding options for additional spending above the base and equalizing that additional opportunity. This is often called a second tier of spending. The first tier is the foundation level, covering basic costs plus adjustments for special needs. The second tier of spending is then a local option. The national trend is to not only add this opportunity, but to provide state aid to districts using it. The state aid is used to equalize the opportunity, so that local wealth differences do not make this second tier of more benefit to some districts.

**4. Capping Local Revenue**

Legislatures in some states have been capping local revenues. A few states have set a uniform property tax and recaptured some revenue. Property tax limitations can be put on tax rates, on the revenue raised, or on both. Twelve states have an overall property rate limit. Half of the states have some kind of specific property tax rate limitation. Eighteen states limit revenues raised by property taxes.

**5. Enacting Statewide Property Taxes**

Statewide property taxes have become more popular as state's have struggled to lower property taxes. Michigan now counts its statewide property tax as part of state revenue while Kansas has a uniform statewide property tax that is counted as local revenue. In each case where a state has significantly lowered property taxes, state aid has gone up with revenues from increased state sales taxes, income taxes, or increases in both.

**6. Creating Performance-Based Incentives**

Performance based incentives are being added to some school finance systems. In 1990, Kentucky created a performance based incentive as part of its major education reform package. The state provides a bonus to school sites based on an increasing percentage of successful students. Successful students are identified on a new assessment procedure developed by Kentucky and tied to state standards for student performance. The development of assessments tied to those standards is taking place in most states. More performance based incentives are likely to develop as states continue their work on standards and assessment development.

Traditionally school finance incentives have been "input" based. Inputs to the education system include teachers, instructional materials, services and programs. The national trend is toward states deregulating and no longer mandating these inputs, but holding school districts responsible for better student performance. This trend would suggest movement toward more performance-based school funding.

Discussion has begun on a related move to a performance-based incentive as it relates to teachers. Some states have added incentives and rewards for teachers taking part in the national certification

process offered by the National Board for Professional Teaching Standards. This process is recognized as quality professional development and fits with efforts in some states to increase funding for quality professional development. There have been a few states that have considered a proposal to change the way teachers salaries are set. The proposal is to make teacher salaries based on the knowledge and skills of the professionals, not on years of service and credit hours.

# How Washington Compares to National Trends

The Washington school finance system not only compares very well with concepts used to define an optimal system, it also compares well against the current trends. The first, third, fourth and fifth trends are all ones that Washington is either consistent with or ahead of in application. Still, there are five ideas from these trends that suggest changes that Washington may wish to consider.

Two of these ideas relate to setting the base level of support. Currently, the level of support is set by the legislature through a combination of the "entitlement" created by the basic allotment and potential salary increases. The national trend is to use a more objective way of setting the base level of funding, however most states have not yet reached this goal. These new approaches to setting a base cost start from a picture of student and district needs. These needs are determined through a study that uses qualitative standards to set funding levels for each function of school spending.

The second idea related to setting the base cost is consideration of new ways to set teachers salaries. The 1992 Washington Governor's Council on Education Reform and Funding set a goal of creating a system of "professional and financial rewards, and providing greater autonomy and expanded career opportunities" for professional educators. The discussion about implementing new approaches to achieve this goal has not led to recommendations for change. As mentioned earlier, nationally, there is discussion of rewarding teachers for knowledge and skills, for participation in the National Board for Professional Teaching Standards certification, and for student performance increases at school sites. In Kentucky, school sites with an increasing percentage of successful students are given funding for salary bonuses that average about $2000. North Carolina pays the fee for teachers who complete the National Board Certification and provides a 4% annual salary bonus to successful candidates..

Washington does not adjust for cost of living differences among school districts. Only six states have these adjustments, though, several other states have considered adopting them. The states that have added this adjustment have found it hard to implement. Some have found it costly to set up. Still, where adopted policymakers have done so for equity and adequacy of funding reasons.

The Learning Assistance Program (LAP) varies from the national trend in its attention to remediation. The national trend is for added assistance to school districts so they can serve economically disadvantage students. Typically, the number of students on Aid for Dependent Children, or the number of students receiving free or reduced price lunch, is used to determine the districts' need for assistance.

Finally, the state of Washington does not have a performance based incentive system. Although LAP is sometimes considered a performance based factor, it is characterized for this report as a cost pressure adjustment, because it is used to provide additional funding for at-risk students. Twenty-eight states have a compensatory education adjustment for economically disadvantaged or at-risk students.

In order to have a performance based incentive, a student assessment system that exceeds basic skills is needed. The best example of this kind of program is the Kentucky program described above. No other state currently has this kind of performance based incentive system, though many are considering similar proposals.

In conclusion, the State of Washington has an excellent school finance system, but if the school funding system is to keep up with the national trends, the legislature would add flexibility for local school districts, change the way teachers salaries are set, and add a performance-based incentive.

# PART III

The committee recognized the political and technical difficulties of recommending adoption of a new finance system. The experience of this state and other states is that it is difficult for a legislature to change a finance system. The committee recognized that it would neither put out a majority report or pass legislation through both houses which drastically alters our current finance system.

However, the committee did want to recognize in its report some of the strongly-held beliefs of the committee members regarding changes needed in our K-12 finance system. Some of these potential changes are understood to be contradictory. However, they represent the viewpoints of school districts and members from rural, suburban and urban districts of high, middle and low incomes.

## POTENTIAL CHANGES

1. DEFINITION OF BASIC EDUCATION

The definition of basic education has not been comprehensively reviewed since its inception in 1977 and subsequent amendments of 1985. The Doran decisions required the legislature to define basic education and fully fund it. Also, the court suggested that the legislature should review the formula as the education system evolves and changes. More than ten years have passed since the last significant changes to the definition of basic education,

Therefore, the legislature should initiate a comprehensive study concerning:

- Whether the current funding formulas are still valid;
- What programs are included in basic education;
- Whether basic education is fully funded.

2. SPECIFIC ELEMENTS OF THE K-12 FUNDING SYSTEM

During the course of its work the committee raised various issues concerning the appropriateness and adequacy of programs and funding formulas.

The following were identified as needing review:

- A regional cost-of-living factor for salary allocations;
- A regional costs of operations factor;
- Non-employee related cost allocations;
- Administrator salary allocations;
- Salary increments for classified staff;
- Higher costs of educating students in high-stress urban and rural communities;
- Correlation of certificated instructional staff salaries with performance and/or skills;
- Performance incentives for successful programs.

## 3. GOVERNANCE

State K-12 dollars are allocated to Washington's 296 school districts. The legislature has delegated to school boards the authority to set local priorities. However, the legislature has also set in place various requirements which restrict local flexibility.

Therefore the legislature should increase local flexibility and local control by reducing state restrictions on local school board funding decisions and focus more on requiring school districts to be accountable for the basic education goals of the Basic Education Act and the 1993 Education Reform Act (HB 1209)..

## 4. SCHOOL DISTRICT REPORTS

The current state accounting system and accompanying reports should be redesigned for the use of the public and local decision makers. They need to be more simple, clearer, in lay language and easily accessible by the community.

## 5. LONG TERM LEVY POLICY

Since inception of basic education act and the levy lid law in 1977 , the legislature has continually amended the levy lid. Advocates for raising the lid have cited the right of local voters to tax themselves to support schools. Opponents of raising the lid have objected to the increasing spread in resources available between wealth and poor districts.

Questions raised by committee members include:

- Are levies critical in funding basic education?;
- Is the growing spread in resources between districts creating the threat of another lawsuit?;
- Do initiative 601 and potential reductions in state funding make local levies more critical?
- Is it unfair for education spending to depend on the value of the local property tax base.

## 6. INITIATIVE 601

K-12 enrollment does not grow at the same pace as state population.

The legislature should revise I-601 to reflect this disparity.

# ADDENDUM

## STRENGTHS AND WEAKNESSES

(Opinions of strengths and weaknesses of the K-12 Finance System presented to the Committee by a group of panelists at the October 18, 1995 meeting)

### WEAKNESSES

Formula has become "silo" of categorical funds; drives "separate" programs when not necessary

Formula too complex

Formula needs updating

Too many categories of state funds

Formula becomes a spending plan, not an allocation

Formula "tweaks" cause major system behavior changes

Staff Mix drivers prescribe behavior on local salary policy;
restricts local creativity

Overall funding source limits set by I-601 and state population growth yet K-12 growing faster; will cause "artificial" tinkering

Special Education formula doesn't recognize real classroom loads of special education on regular education students; 12.7% "limit" will push special education students to regular education classrooms

Governance needs clarification: everybody/nobody in charge

Too much reliance on levies

Supermajority for levy passage not reasonable

Levy rates need leveling

School construction funding inadequate

Reality of site councils doesn't fit expectation for reform

Food service salary and increments not funded by the state

Classified increments not funded by the state

Administrative salaries shortfunded

No provision for shortfunding by federal government

Doran / Court decisions need thorough review from current validity

No overview of system so tendency to tinker at margins
Accounting codes too vague; spending not tracked with sufficient detail

Salaries not controlled adequately, particularly administrators

Salaries not tied to performance

Hazardous walking conditions funding approach

Weighted student approach not used

Prospective budgeting difficult due to levy uncertainty

Non-Employee Related Costs (NERCs) not fully funded

Current approach doesn't recognized efficiencies; has penalties to districts realizing certain savings

Communications from Management/School Boards to public increasingly difficult due to Public Disclosure Comm., etc.

Definition of "basic education" too narrow

Gifted not included in "basic ed" definition

Basic education funding eroded to the point state does not fully cover costs

Transportation operating costs based on straight line or "as the crow flies" bus route assumptions

Unfunded mandates

No state funding for supplemental contracts for added time, responsibilities or incentives

## **STRENGTHS**

State Constitution priority means commitment to K-12

Levy Equalization helps provide equity missing in other states

Education Reform indicates commitment to improve system

Funding of staff development (including Paraprofessionals) for education reform

Pre-school special education good prevention to later problems

Categorical programs added without specific program direction from the state

Formula is flexible, reflects broad definition of "basic ed"; districts can do basically "what they want if they want to"

Formulas based on actual costs is a strength when adequately funded and used as an allocation; can be a weakness is becomes a spending plan; cost sensitivity of certain formula drivers

High percent of funding provided by the state

Weighted student formula not used

Educational Service Districts operations / support to districts

State funding for local school construction better than other states

K-3 added staffing good early "investment"

State salary grid creates common base for positive salary discussions